

# **BUDGET REFERENCE MANUAL FOR BULGARIA**

Prepared for



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## 1.0 INTRODUCTION

As local governments in Bulgaria begin to expand their role in democratic governance, elected officials and municipal staff are searching for new tools to manage local affairs in an effective and open manner. Few tools are as essential as the budget process, through which decisions are made about the best use of public resources. While formerly a tool primarily for financial control to follow the dictates of the state, the modern budget process is now a tool for management and communication. It allows elected officials to set goals and policies, department heads to improve service performance, and the municipal government to be accountable to the public.

The Municipal Budget Law in Bulgaria requires that municipal budgets be based on judgements about the efficiency and effectiveness of municipal services. This is the primary objective of Service-Based Budgeting (SBB) which introduces information about service results into the budget process and systematically applies this information to support budget decisions. SBB attempts to link the municipality's annual resource allocation decisions more closely to its multi-year planning process, such as a strategic plan. It also offers more opportunities for citizen participation in municipal resource allocation. Finally, SBB serves to increase accountability within the municipal administration by making explicit what department staff are expected to accomplish with the resources they are provided.

### ***Purpose of this Manual***

This budget reference manual complements the budget preparation manual that municipalities will use as they implement SBB within their cities. The budget preparation manual provides practical guidance and tools for using SBB. The reference manual describes the underlying ideas and concepts on which SBB procedures are based. This manual also goes beyond basic SBB concepts and discusses elements which leads to more efficient and better budgeting practices within a municipality. The remainder of this manual consists of five chapters. Chapter two, *Municipal Budget Reform*, explains why traditional budgeting practices need to change, and discusses the elements of service-based budgeting—customer orientation, performance management, and local decision making. Chapter three, *Budget Preparation*, explains in detail the concepts behind the forms shown in chapter two of the budget preparation manual (Tools of Budget Preparation). Chapter four, *Budget Analysis*, describes the principles of fiscal analysis that should be used by departments, enterprises, and community organizations as they prepare their base budget and enhancement requests. It covers revenue and expenditure forecasting, activity based costing, off-budget resources, and municipal enterprises. Chapter five, *Budget Review and Adoption*, discusses the process of budget review and adoption, and briefly covers guidelines for successful budget presentation. This chapter also deals with increasing citizen involvement in the local budget process. The final chapter, *Budget Implementation and Management*, deals with implementing and monitoring the budget after it has been adopted.



The appendices in this manual primarily consist of state and local laws related to budgeting, administration, and accounting. They also include some sample program services, and a glossary of terms used in the budget preparation and budget reference manuals.

### ***How to Use the Budget Reference Manual***

The reference manual should be used in conjunction with the preparation manual, since it provides a greater explanation of the tools and concepts introduced in that manual. Although the reference manual is considerably longer than the preparation manual, it does not attempt to address all possible questions that may arise in introducing and modernizing financial management.

The municipality of Razgrad initiated SBB in 1998. Several exhibits in this manual are based on the forms actually used by Razgrad. Therefore in addition to complementing the budget preparation manual, the reference manual includes several additional sample exhibits which a municipality can either use as templates or modify to suit its needs.

## 2.0 MUNICIPAL BUDGET REFORM

Bulgarian municipalities essentially use line-item budgeting that is designed to conform to central government accounting classifications. This type of budgeting does not enable an understanding of the programs,<sup>1</sup> activities or services provided by the city. Even though it distinguishes between capital and operating expenditures, the absence of multi-year budgeting limits the ability of local governments to plan for capital expenditures. Once central government grants and transfers are determined, the amounts are added to the budget. The cities have limited authority to increase their own source revenues and thus rarely fund new activities.

The finance department plays a coordinative role throughout the budget process, while decision making is primarily the function of the general assembly and various committees. There is no multi-year forecasting, budget analysis, performance measurement or monitoring. As local governments in Bulgaria begin to expand their role in democratic governance, elected officials and municipal staff are searching for new tools to manage local affairs in an effective and open manner.

### ***Modifying Traditional Budget Patterns***

The reform occurring in Bulgaria requires that municipalities discard their traditional approaches to municipal budgeting management in favor of more modern techniques.

While formerly a tool primarily for financial control to follow the dictates of the state, the budget process is now a tool for management and communication. It identifies goals and objectives; links community needs, trends, and government priorities; emphasizes what the government

#### **Razgrad—The Need for Change**

Three years ago, the Municipality of Razgrad under the leadership of Mayor Venelin Uzunov and Vice Mayor for Finance Stanka Angelova, began reforming its budget process to make it and the budget document open and accessible to the citizens. One of the main reasons for this was the city's need to "do more with less." The city faced employment dislocations, production declines, population losses, and a plethora of unfinished projects begun by the previous administration. The mayor and his management team decided that they wanted to make definite but limited promises and accomplish those objectives. In addition, the leadership team knew that it needed to make some hard decisions and understood the value of both better information and citizen support to make these decisions.

#### **Elements of Budget Reform**

In undertaking budget reform a city must:

- ! Obtain commitment
- ! Organize the budget process
- ! Develop forms and instructions
- ! Assign responsibilities
- ! Establish time frames
- ! Train staff
- ! Create and maintain an adequate data base
- ! Develop knowledge of functional areas
- ! Assemble new budget format
- ! Establish reasonable expectations
- ! Work with the legislative body

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<sup>1</sup>Throughout this document, a "program" is defined as a group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible.

does and what it accomplishes; establishes comprehensive performance measures; considers alternatives, their costs, and effectiveness; establishes different levels of service for different funding levels; projects and schedules the work to be done; and compares budget requests with prior actual expenditures and accomplishments. All of the above leads to a better use of public resources and helps make government accountable to the public.

Many cities would like to improve the quality of life for citizens, increase economic activity, or enhance city conditions or facilities. The overwhelming majority of activities, however, are designed to deliver basic municipal services. In most cases, cities are the only providers of basic services, and city officials sometimes forget that their primary function is efficient and timely service delivery. Recognizing the citizen as customer is a key element in contemporary budget practices. Service delivery management is ultimately judged on its:

- Efficiency—Are resources being utilized in the cost efficient way?
- Effectiveness—Are the efforts properly targeted to solve the problem?
- Environment—Do the activities return to the social and economic systems as much as is withdrawn?
- Equity—Is there basic fairness in the design and delivery of the services?

In meeting the above objectives modern budgeting practice comprises of four main elements which are as follows:

- ! **Organization.** The municipality must designate channels for budget execution and control. Budget reform involves dividing and distributing the work among individual and groups of employees, assigning specific tasks to the staff, establishing rules for relationships, and delegating various powers. Modern municipal management encourages initiative, problem solving, and work restructuring. The extensive involvement of employees and department heads in discussing goals and setting objectives is a part of this modern management technique.

#### Budget Reform in Razgrad

The Municipality of Razgrad developed and published its first revised municipal budget for fiscal year (FY) 1997. The FY1997 budget document provided basic information about the municipality and its organization and served as a public expenditure plan. It served as an initial tool for decision making by city council and for sharing information with citizens.

The Razgrad budget for FY1998 was expanded to include additional information about the municipality and more detailed analysis (emphasizing multi year comparisons) of revenue and expenditure categories. Budget reporting took on a more functional appearance and introduced principal performance indicators for service activities. The graphic presentation of the document also improved, and budgetary information was distributed on a wider basis than in previous years through press releases and in public libraries.



- ! **Execution.** Successful budget execution requires communication and coordination. A combination of verbal and written communication sets programs and plans into motion and informs others of the municipal council's actions on the annual budget. Traditional examples of communication are written orders, regulations, decisions, and agreements. Modern management, however, emphasizes interactive communication, involving both the staff and citizens much earlier in the process so that they can participate in the decisions and the ultimate results. Budget execution also requires coordination of the efforts of various departments and institutions so as to minimize controversies and conflicts and to increase genuine cooperation. Effective coordination and voluntary cooperation are tied to effective communication.
- ! **Control.** The budget is more than just a expenditure plan defining programs, their costs and their funding. Control consists of analyzing results and the extent to which the objectives have been efficiently and effectively achieved. When desired results are not realized, performance and the organization are analyzed for improvements. In modern municipal management, control involves the setting of organizational parameters within which operational managers direct results-oriented behavior. These managers are ultimately responsible for service delivery. Budget control can be exercised in various ways. The typical form of control—command control—involves approvals through a “chain of command” (i.e., supervisors) for each specific action. Control through designated scopes of responsibilities is more consistent with service-based budgeting.
- ! **Leadership.** As the budgeting process becomes more interactive, it is important to redefine the roles of the stakeholders: the mayor, the municipal council, the finance committee, the municipal administration, the deputy mayor for finance and economic development, and the operational managers of the departments and enterprises:
  - Mayor: As the elected leader of the municipality, the mayor serves as a central point for citizen concerns, ideas, and expectations. Through both formal and informal means, the mayor articulates the city's mission. The mayor is not only the visionary leader but also the head of the municipal administration, which is charged with successful execution of the budget adopted by the municipal council.
  - Municipal Council: As the legislative body responsible for the process and content of the annual budget, the council is ultimately responsible to the electorate for the performance of policy initiatives.



- Finance Committee: This municipal council committee provides in-depth analysis and oversight of the budget process to the council and reconciles the proposed budget with the fiscal conditions of the city.
- Municipal Administration: This is the mayor's team that manages the delivery of services promised in the adopted budget.
- Deputy Mayor for Finance: The deputy mayor provides direction to the budgeting process and supports the municipal administration in establishing service delivery requirements and expectations in keeping with financial constraints.
- Operational Managers: These managers are responsible for professional input and execution of the budget within their areas of expertise.

### ***The Management (Strategic) Plan***

Modernizing budgeting practices implies a shift away from control orientation and budgeting inputs, to a focus on outcomes (results) and accomplishments. Budgeting is such a complex process that budgets are usually a combination of base, line-item, program or performance budgets. The main objective in undertaking budget reform is to make the process more efficient and effective irrespective of the type of budget. One of the tools used to achieve this is the management plan, which serves as the link between available resources and outcomes. The management plan must be clear, focused, and consistent. Furthermore, it should fully illustrate the issues facing departments and the mayor's and municipal council's strategic direction. If the guiding principle for the base budget is a "constant supply of service" (each program will provide the same aggregate level of service next year as in the current year), the management plan should reflect this, unless there have been board-directed changes or efficiency increases.

Management planning provides the opportunity to step back from daily operations to examine and review what the city does and how it does it. This is the time to take a fresh look at structure, operations, processes, and outcomes, and to strategically plan and do multi-year forecasting of programs and services. As described below, management

#### **Management Planning**

A management plan describes how the municipality uses and allocates all available resources in terms of expected outcomes and accomplishments. It therefore serves as written justification to the citizens and the municipal council of what the city government requires to serve its citizens.

The plan should include the following program information:

- ! Mission statement
- ! Description
- ! Achievements/Accomplishments
- ! Goals
- ! Objectives
- ! Performance indicators

plans benefit department and program staff, the municipal administration, and citizens (i.e., the customers):

- ! **Benefits to Department and Program Staff.** Department and program staff benefit not only from the document itself but also from the process of preparing it. Staff can use the management planning process as an opportunity to examine programmatic resource requirements, and to ask fundamental questions about program effectiveness. By participating in the review and improvement of a program's activities, staff gain a better understanding of the program's goals. Management plans provide program managers and staff with benchmarks to use in evaluating the programs. Used as accountability and prioritizing tools, management plans encourage innovation and improvement.
- ! **Benefits to Municipal Administration.** The mayor and municipal council make the final resource allocation decisions. For fully informed decisions to be made, they must access and distill a large amount of critical and relevant data. Management plans can help them systematically review the operations of existing and proposed municipal programs. Clearly stating the relationships among resources, processes, and outcomes allows the municipal administration to make sound decisions regarding management, budgets, policies, and allocation of limited resources.
- ! **Benefits to the Customers.** Finally, a management plan educates and informs "the customers": the citizens, municipal council, operational units, and internal staff. The plan illustrates that public revenues and other resources entrusted to the municipality are being used efficiently and effectively to meet citizens' concerns and specific goals. Management plans provide accountability in the form of quantifiable proof that the city regularly achieves or surpasses its goals and that the citizens are receiving quality service.

The management plan comprises a city mission, as well as department and program missions. It specifies goals and objectives and performance indicators for each program. Exhibit 2-1 shows the contents of a management plan which are discussed in greater detail below.

### The City Mission

The preliminary step in service-based budgeting is to define the city mission. The underlying principle of the city mission is to bring together the municipality and the citizens/customers. Taking into consideration what the citizens want, the mayor or municipal council determine the municipality's goals and the approach for achieving them. The

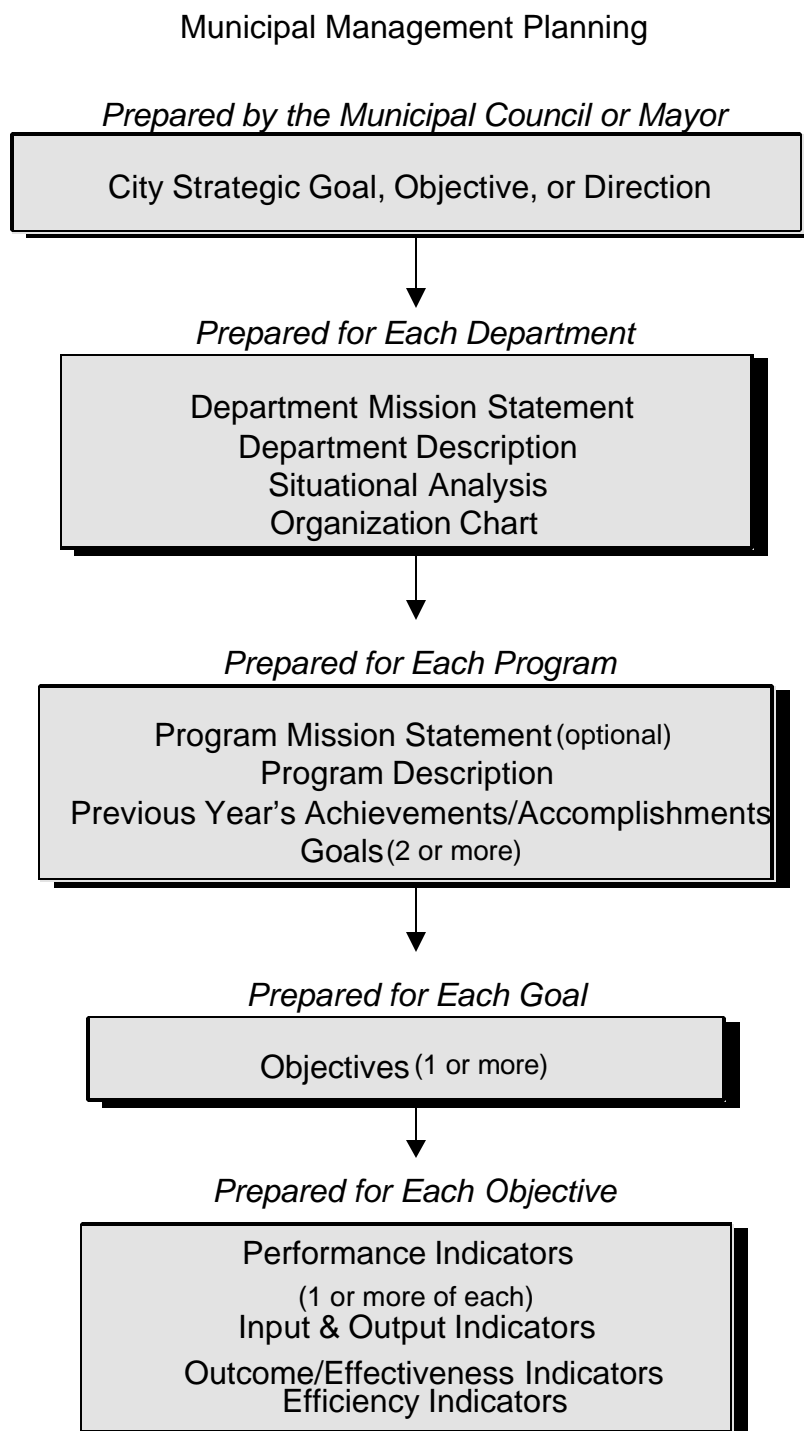


procedure for establishing the city mission must allow for ongoing dialogue between the public and city officials. Government officials must propose ideas and listen, adjusting service delivery plans as necessary. The citizens also must propose ideas and listen, because municipal officials may have a more comprehensive view of municipal needs and available resources than they do.

Prior to the beginning of the budget year, the municipality must establish its annual goals. (The budget sets forth the city's approach for achieving these goals and the roles of the various participants.) Setting annual goals is a political process that stems from sociocultural traditions and the local leadership's political agenda. The city of Razgrad has experience with annual goal setting. The municipality's first strategic planning effort looked principally at physical and infrastructure needs and established an action plan for the year.

The Mayor's FY1998 goals presented in Exhibit 2-1 are the result of that effort.



**EXHIBIT 2-1**



## Department Information

The following information is required from each department for the management plan (*i.e., department mission statement, description, situational analysis, and organization chart*):

- ! **Department Mission Statement (one per Department).** The beginning of the budget process is the time to develop or modify the department's mission statement, especially if changes are expected. The mission statement must reflect the department's fundamental and core purpose, and should be broad enough to encompass all program goals, objectives, and outcomes. The mission statement should reflect purpose rather than programmatic structure—a statement that merely lists a department's structural components provides little insight into why it should continue to exist.

### Example of a Mission Statement

#### Social Welfare Department

Enhance the quality of life for Razgrad residents through programs that promote the economic and social self-sufficiency of families and individuals, and safeguard vulnerable children and adults.

The preceding example clearly states the department's main purpose: to protect families from economic or social disintegration. This mission is reflected in the description of each program in the department:

- ! **Department Description (one per Department).** The department description is the narrative link between the department's mission and its program structure. It should be brief and program-based and should include any planned program changes. In essence, the description should describe how the department accomplishes its objectives in pursuit of its overall goals. If intergovernmental agencies or the private sector play a significant role in the administration or operation of a department's programs, their role should be included in the department description.

### Example of a Department Description

The Office of Mapping and Geographic Information is responsible for maintaining land-based (mapped) information. The office accomplishes these tasks through the operation of the following programs: base project support, parcel map and addressing land records maintenance, land records map and database development, and public information/copy center.

- ! **Situational Analysis (one of each per Department).** A situational analysis describes both internal and external issues that will affect the department over the next year. It therefore should be developed early in the management planning process. The situational analysis also provides an appraisal of the current and near-term conditions in which the department must function. There are four components to the situational analysis: environmental scan, customer service considerations, departmental operations, and critical success factors.
- ! **Environmental Scan.** The environmental scan gives departments the opportunity to analyze the implications of certain trends—demographic, economic, sociological, technological, and legislative/political:
  - *Demographic Trends:* How will the department be affected by projected population changes? Will there be changes to the makeup of the population that require specific programmatic attention? Can the population changes be accommodated within existing facilities and programs?
  - *Economic Trends:* What are the service implications of forecasted economic activity? Will the economy affect service demand? Will it change resource availability?
  - *Sociological Trends:* What social trends drive the department's service demand? For example, how does the growing number of "idle teenagers" or the "graying" of the existing population directly or indirectly affect service demand?
  - *Technology Trends:* Are there technological changes in engineering, construction, or materials that will impact services or processes? With technology advances can the department keep up?



- *Legislative/Political Trends*: What political changes will occur and what do they mean? (Although these trends are difficult to predict, departments should attempt to forecast the more likely changes and describe how they will prepare for them).
- ! **Customer Service Considerations.** Service-based budgeting has a strong emphasis and focus on customers. Who are the department's customers? What are their requirements and service needs? Are there conflicting customer needs? What can customers reasonably expect from the department? How satisfied are customers with the service provided and how is their satisfaction measured? Which other agencies (internal or external) provide the same or a similar service? How can coordination with these other agencies be measured?
- ! **Departmental Operations.** What are the strengths and weaknesses of the department's structure and resources? What is the department's ability to adapt to unforeseen crises? Some of the following areas may be relevant:
  - *Staffing*: Do staffing levels allow objectives to be achieved? Are there relevant issues regarding vacancies? Do job descriptions need to be changed to meet objectives?
  - *Structure*: Is the program structure effective? Might there be changes in the structure over the next year?
  - *Operations Management*: Does staff have enough of management's time? Do supervisors have sufficient time to provide oversight or handle other administrative duties? Can this be helped with training or technology?
  - *Facilities*: Are facilities adequate and in acceptable physical condition? Are there program delivery issues associated with facilities?
  - *Equipment*: Is there enough equipment and is it the right type? Is it fully operational?
  - *Technology*: Is the department ahead of the technology curve, riding the crest, or falling behind? Do automated systems help or hinder performance? Are automation and technology spread throughout the department or are there overlooked areas? Do staff have enough training? Is there enough support for automated systems?

- *Turnover/Absenteeism/Morale:* How do these factors affect service delivery? Are there any problems and what is the department doing to address them? How long has this been the trend and is it growing? Innovation: Does the department welcome innovation? How has it been creative?
  - *Major Successes:* What are the major successes and what was learned from them?
  - *Major Failures:* What were the major failures and what was learned from them? What has been or could be changed to avoid future failures?
  - *Communication:* How effective is communication within the department? How effective is communication with other departments? How can communication be improved? Are there any public information issues?
  - *Overhead:* What resources are used in departmental overhead or other internal requirements (including management planning)? What has been done to reduce it? Is there anything else that can be done?
- ! **Critical Success Factors.** The management plan should include a brief description of the internal or external factors that would prevent a department from achieving its program goals. Budget cuts and new program requirements endanger most goals, but other factors may be critical to the department's success such as political support to implement tough decisions/policy; slow implementation of the program; and lack of institutional capacity.

#### Example of Department Critical Success Factors

A factor critical to the success of this program is the level of support required for the Youth Employment Initiative. A support level similar to last year's would endanger this office's ability to achieve progress towards other goals.



- ! **Organization Chart (one per Department).** Departments must submit an organization chart with their management plan. The chart must be program-based rather than structure-based and must represent the entire department. The following information must be included:

- Job classification
- Official position title
- Number of full-time employees

[Note: The information may only be aggregated if two or more employees have the same job classification and official position title in the same program (e.g., 20 primary school teachers)].

### Program Information

The following information is required from each program for the management plan (i.e., program mission statement; description; previous years achievements/ accomplishments; goals; and objectives):

- ! **Program Mission Statement—Optional (one per Program).** Some programs may need a specific mission statement if the relationship between the program and the department mission statement is not obvious. Departments may include program mission statements at their discretion.

#### Example of a Program Mission Statement

The mission of the Food Inspection Program is to ensure health standards are maintained in restaurants, bars, and café's that serve the public or provide meals in public residential programs.

- ! **Program Description (one per Program).** The program description should be a brief narrative of activities within the program, and serve as a link between the mission of the department and the program goals, objectives, and performance indicators. If any intergovernmental agencies or the private sector play a significant role in administering or operating the program, this should be included in the program description. If the program must meet national norms or mandated quantifiable levels of service, that also should be referenced here. Additionally, the program description should reflect any changes in the structure or focus of the

### Example of a Program Description

The Fire-Rescue Program delivers emergency and non-emergency fire, rescue, and emergency medical services to citizens. The program also provides support for the approximately 800 volunteers who are distributed in 17 independent companies: 8 fire companies, 5 fire-rescue companies, and 4 rescue companies. This program is closely associated with the Fire-Rescue Commission, which represents volunteer services and establishes system-wide goals and policies enabling the companies to provide the most efficient, cost-effective service possible.

program.

- ! **Previous Year\*s Achievements/Accomplishments.** This section lists the objectives the program achieved in the previous budget year. It consists of bulleted items simply describing the more significant results of program efforts and activities. These achievements should be tied directly to the previous year\*s program goals, objectives, and performance indicators, and used to develop the upcoming year\*s goals and objectives.
- ! **Program Goals (two or more per Program).** The program goals should provide greater detail than the program description on how the program will achieve the department mission. Goals should be broad (but not vague or without meaning), long-term, clear, simple, and concise. They should state a program\*s desired long-term result (outcome), and not change from year to year. Only a vital few goals should be identified, encompassing the program\*s multi-year vision. Goals are often non-quantifiable, and logically connected with the performance indicators that will be measured.

### Examples of Program Goals

- Minimize unemployment among disadvantaged youth.
  - Provide safe drinking water for all city residents.
  - Provide adequate recreation activities for youth.

- ! **Program Objectives** (one or more per goal). In some ways, clear program



objectives are the most important information in the management plan. The objectives articulate what customers/citizens will get for the taxes and fees they pay. They explain the program's actions for the budget year. There must be a clear relationship between the objectives and the department mission statement. Objectives should clearly demonstrate desired, challenging, and achievable outcomes rather than inputs or activities. The performance indicators should be directly connected to the objectives.

### Examples of Program Objectives

- Assist 5 percent of heads of household in obtaining full-time employment by the end of the budget year.
- Reduce student absenteeism to accomplish an attendance rate of 92 percent average daily attendance by fiscal year X.

### Performance Indicators

The performance of government is of interest to its citizens because they expect their taxes to be used efficiently in providing the highest level of public services. The government in turn has the responsibility to ensure that programs meet their stated objectives and are cost-effective. By measuring the level, efficiency, and outcome of a program's efforts, performance indicators can guide resource allocation decisions, and communicate to the public the goals and objectives of public programs.

Four types of performance indicators are usually considered: input, output, outcome, and efficiency. Input indicators address the amount of resources (dollars, employee-hours, etc.) used in providing a particular service. Output indicators describe the activities undertaken in providing a service or carrying out a program (e.g., the number of arrests or the number of responses to fire alarms). An advantage of input and output measures is that they are generally easy to define and the necessary data is more readily available; however, they provide only limited insight into the question of whether the program is accomplishing the goals for which it was designed.

Outcome indicators are used to evaluate the quality and effectiveness of public programs and services. For example, an important objective in providing police protection programs is to reduce the number of crimes committed; hence, a relevant outcome indicator is the number of crimes committed per capita. A fire suppression program usually has the



objective of minimizing losses due to fire. An outcome indicator for this program might be the leva value of property lost due to fire. Outcome indicators also provide an indication of how effectively services are provided. The percentage of community residents that feel that police respond fast enough when called is an example of service effectiveness measure. Outcome indicators are sometimes difficult due to the following reasons: (1) conflicting goals for some programs and services, (2) inability to determine a direct correlation between the service provided and the results being measured, and (3) costly and time consuming measurement techniques.

A final type of indicator is efficiency, which relates inputs, or resources used, to units of output or outcome. Examples of efficiency indicators are employee-hours per crime solved, or fire department expenditures per leva 500,000 of property protected. When efficiency indicators are evaluated over time, they provide evidence of trends of productivity. This is especially crucial information for resource strapped governments that are trying to provide services of higher quality or quantity with the same level of resources. (Performance indicators are an important component of SBB. For a more detailed discussion on this topic see *Performance Management*, discussed under elements of Service Based Budgeting).



## Exhibit 2-2

### MAYOR'S BUDGET GOALS FOR 1998

#### RAZGRAD MUNICIPALITY

- Ensure proper employment for all budget units in conformity with the adopted 1998 budget for Razgrad Municipality.
- Complete the repair of "Ekzarh Iosif" Secondary Language School.
- Implement the program for providing medical equipment and reconstruction of health care establishments.
- Rise the awareness of city and village inhabitants with regard to maintenance of residential areas and green spots through a series of successive actions and events.
- Establish an optimum scheme of transport services for citizens and implement efficient control of transportation schedules, service delivery culture, service tariff rates, etc.
- Provide conditions and prerequisites for the full operation of the established public councils, which are to become a partner to local governments in solving municipality issues.
- Establish a municipal commercial security company for agricultural property, summer-house zones, and economic entities belonging to citizens.
- Ensure technical conditions for starting the construction of a network of pipe-lines for providing gas to households.
- Implement the privatization program aimed at ensuring the implementation of the investment program for the most important municipal sites: completion of the ring-road central bus-station - "Orel" residential district; reconstruction of Parkova street; further construction of the new drama theater and implementation of vertical planning around it; reconstruction of the municipal market place; vertical planning, welfare works, construction of sewerage and of the infrastructure in all municipal settlements.
- Reconstruct, repair, and restore cultural monuments—"St. Nikolai" church, "Ibrahim Pasha" mosque.
- Participate in international programs to find alternative financing for municipal activities and events:
  - ! The British Know-how Fund program and Phare "Remodel" project for the livestock market place in Ghetzovo;
  - ! The brother cities program with Armaa, Northern Ireland; funding for the reconstruction and repair of the clock tower;
  - ! With the assistance of the U.S. Agency for International Development Local Government Initiative (LGI), financial support and development of a pilot project in Razgrad on the stages of budget payment and publicity in municipal finance management, which shall be submitted as a model to the other municipalities in our country.
- Under LGI, involve experts from the public administration, municipal enterprises, and budget units in 1-week training courses for acquiring management skills.
- Under LGI, finance a project to establish a regional business information center.

### ***The Elements of Service-based Budgeting***

Three elements—local decision making, customer orientation, and performance management—make up service-based budgeting (SBB). SBB focuses on demand rather than supply, programs rather than organizational units, outputs rather than inputs, and performance rather than effort. SBB looks at both real costs and how expenditures relate to the actual delivery of goods and services.

Most goals are achieved by action at the local level. The city must define its own local requirements and develop strategies to meet its goals and objectives within the limits of national laws and policies. Operational managers must be held accountable for delivery of services and program performance. Empowering operational managers to make program delivery decisions within municipal policy minimizes bureaucratic conflict and waste. The city must also recognize that citizens are their customers, and that providing services that citizens need and want is the primary function of the government. Finally, the city must focus on results of its activities through “performance management.” This requires knowing the real cost of providing a service, the demand for that service, and the results achieved by the service.

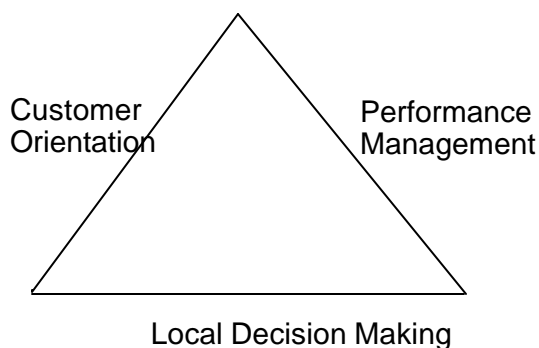
#### **Local Decision Making**

Under SBB, the municipal management team and all operational managers are responsible for delivering services either directly to the public or by units that serve the public. This applies to all units, whether they receive on-budget or off-budget funding through direct allocation of municipal funds or a subsidy, and includes budgetary units, municipal companies, municipal enterprises, and external providers such as franchises and contracts.

To ensure that operational managers are held accountable for their department’s service delivery, a certain organizational framework must be established by the municipal management team:

- ! The organization chart must reflect the program components of each operational unit. (Appendix H presents the revised organization chart for Razgrad.)
- ! The manner of accounting for expenditures must tie costs to direct and indirect

#### **Service Based Budgeting**





service delivery programs.

- ! The desired results of direct and indirect services must be identified for each program.
- ! Each operating unit must prepare a “management plan” that explains simply and clearly what each unit is expected to achieve and how the services are going to be delivered.
- ! Each unit must prepare a “program description” for each service delivered. Exhibit 2-3 provides a template for the program overview, and several examples are included in Appendix H.

Exhibit 2-3  
Program Description Template, Razgrad Municipality

<b>Service:</b>  <i>Identify and describe service</i>	<b>Objectives:</b>  <i>Describe the reasons for the service</i>
<b>Legal Framework</b>	
<b>Central Government</b>  <i>Identify enabling legislation specified</i>	<b>Municipal Government</b>  <i>Identify local laws and policy specifically</i>
<b>Municipal Administration</b>  The service is organized by <i>Title of responsible operational manager</i>  Under the management of <i>Name of department</i>  And the responsibility of <i>Chain of command</i>  The service is delivered by: <i>Under what relationship? _____</i>	
<b>Criteria for Service Evaluation</b>  <i>List indicators for which there is service data</i>  <i>List performance measures that show results</i>	<b>3 Year Budget</b>  1997 - BGL _____ 1998 - BGL _____ 1999 - revenue offset _____ revenue request _____

## **Customer Service**

In a democratic society, the citizen is a customer of municipal services, and the last word comes at the ballot box. SBB recognizes the role of the citizen as customer and organizes services to meet customer needs. A municipality demonstrates its acceptance of a customer-oriented approach by:

- Recognizing the “customer” as the aggregate demand of all citizens
- Systematically considering customer desires
- Establishing “customer centers”
- Creating complaint resolution processes
- Developing client choices
- Integrating feedback mechanisms into service delivery
- Adapting employee rewards system to support customer services

## **Performance Management**

Efficient and effective urban service delivery requires performance management—the planning, monitoring and measuring of service performance. This type of monitoring goes beyond day-to-day supervision of work crews. In performance management, the municipality establishes service objectives through its management planning, and monitors performance towards the attainment of those objectives. Objectives are usually described as effectiveness or efficiency goals:

- Effectiveness goals are stated in terms of the number of people served and the quality of the service delivered (i.e., doing the right things).
- Efficiency goals are stated in terms of the cost per unit of service delivered (i.e., doing things right).

Establishing goals, defining service program and monitoring performance helps managers to:

- Ensure the best possible service at the lowest possible cost (i.e., customer satisfaction)
- Identify areas for service improvement
- Ensure conformance to the budget
- Plan for future service delivery



The following provides an example of how performance management works. The goal of a municipal solid waste management department is to collect all the garbage produced and ensure clean streets at the lowest possible cost. An increase in the number of crews collecting garbage resulted in an increase in the amount collected from 4,200 tons to 4,800 tons in the current year. At the same time, the expenditures have risen 10 percent. To assess performance, the manager might collect and compare data on the following indicators:

- Cost per ton collected
- Quantity collected per crew per day
- Portion of total garbage production collected
- Cleanliness of the streets

This data can be collected quarterly or annually and can be desegregated for various areas of the city.

### # Types of Performance Indicators

A manager needs regular, valid data on indicators of performance. Indicators are quantitative data on the inputs to that service, the amount (outputs) of service units provided, information on program results or effectiveness (outcome), and the cost per unit of output or outcome (efficiency). Good indicators are relevant, relatively easy to measure, cost-effective, persuasive to other audiences, and timely.

When viewed together, performance indicators clearly measure how well a function is performed. It is important to know not only how much is done of a task (i.e., output) but also how well it was done and the customer's satisfaction. Performance indicators also allow managers to assess the results of a service by time (month-to-month or year-to-year comparisons) or by location (community to community or city-to-city comparisons). The table below lists the most widely used quantitative performance measures. In addition, performance measures can be narrative (deadlines or examples), proxy (surrogate or substitute indicators), and benchmarks (comparison of results and/or costs to a baseline).

Type	Definition	Examples
<i>Input Indicator</i>	Measure of resources employed	# Number of positions required for a program, cost, classroom space, supplies used, equipment needed.
<i>Output Indicator</i>	Quantity of service provided	# Number of classes # Number of projects
Program Size	The magnitude of program coverage or effect	# Number of people served # Number of letters answered # Number of applications processed
Workload	Volume of work to be done	# Number of inspections made # Number of graduates # Number of successful rehabilitation
Product	Volume of goods or services produced	
<i>Outcome (Effectiveness) Indicator</i>	The effect or result (intended and unintended) that the program has on its environment. Also defined as the degree to which the intended objectives of the service is being met	# Decrease in crime rate Increase in employment # Change in students test scores # Percentage increase in employment among low skilled workers # Percentage reduction in traffic accidents
<i>Efficiency (unit-cost) Indicator</i>	Cost per unit of output or outcome	# Cost/million liters of drinking water delivered to customers
<i>Benefit Indicator</i>	Measures of the value to society of attaining an objective expressed in monetary terms	# Increase in expected earnings as a result of completing training program # Reduction in welfare cost.

Source: Adapted from Harry P. Hatry, 1977. *How Effective are your Community Services?* Washington, D.C.: The Urban Institute.

### # Output vs. Outcome Indicators

Output indicators show the products and services delivered. They refer to the completed products of internal activity: the amount of work done within the organization or by its contractors (such as the number of miles of road repaired or number of calls answered). An outcome indicator is an event, occurrence, or condition that is the result of the activity or program and of direct importance to clients and the public. It is a measure of the amount and/or frequency of such occurrences. Service quality, such as the timeliness with which the service was provided, is also included under this category. The following table gives some examples of output and outcome indicators.



Output Indicators	Outcome Indicators
# Number of clients served	# Clients whose situation improved
# Lane-miles of road repaired	# Percent of lane-km in good condition
# Number of training programs held	# Number of trainees who were helped by the program
# Crimes investigated	# Conviction rates of serious crimes
# Number of calls answered	# Number of calls that lead to an adequate response

### # Outcome vs. Efficiency Indicators

Outcome indicators present the extent to which the real need for a service is actually satisfied (i.e., service results compared to service need). Efficiency indicators examine the extent to which service inputs are converted into service results. A relatively large output provided for a given level of input represents high efficiency. The table below compares outcome and efficiency indicators.

Outcome Indicator	Efficiency Indicator
# Percentage of the total garbage produced in a city which is actually collected and disposed of properly	# Cost per ton to collect and dispose of that garbage
# Percentage of households with a 24-hour water supply	# Cost per cubic meter of water produced

The following table lists the service objectives and performance indicators for common urban services.



Service			Performance Indicators				
Name	Objective	Inputs	Outputs	Efficiency	Effectiveness		
Solid waste collection and associated street sweeping	Collect all domestic solid waste and sweep streets clean on a regular basis	# Number of workers	# Number of households served	# Cost per ton collected	# Number of complaints per 1,000 households		
		# Number of trucks	# Tons of solid waste collected	# Cost per household served	# Percent of garbage collected		
		# Liters of fuel	# KM of roads swept	# Tons collected per worker per day	# Percent of households served		
		# Total expenditure	# Number of complaints	# Km swept per month per worker	# Percent of streets swept		
Sewer line maintenance	Keep all sewer lines free of clogs and ruptures and in good functioning order	# Number of workers	# Km of network cleaned	# Cost per km of network	# Number of complaints per 1,000 households		
		# Number of trucks, vehicles	# Km of network free of problems or repairs	# Cost per household served	# Percent of network free of repairs		
		# Liters of fuel	# Number of repairs	# Cost per repair			
		# Quantities of sand, cement, pipe, rod, etc.	# Number of complaints	# Cost of cleaning per meter cleaned			
		# Total expenditure					
Road surface maintenance	Maintain all roads with a good quality asphalt surface	# Number of workers	# Km of roads patched	# Cost per km of road	# Number of complaints per 1,000 households		
		# Number of trucks, vehicles	# Km of roads resurfaced	# Cost per household served	# Percent of roads in good condition		
		# Liters of fuel	# Km of roads in good condition	# Cost of patching per km patched			
		# Quantities of asphalt, gravel, sand, cement, etc.	# Number of complaints	# Cost of resurfacing per km resurfaced			
		# Total expenditure					

### # Uses of Performance Measures

Performance measures can be used in several ways:

- ! To control costs—for example, identifying garbage collection routes where costs are much higher or lower than average and determining why these differences exist
- ! To compare processes—analyzing the performance of a service when using a particular technology, approach, procedure, or equipment as compared to other



options

- ! To compare staffs/locations—analyzing the performance of a particular work crew or in a particular location as compared to others
- ! To track costs—determining how service costs have evolved over time
- ! To compare governments—comparing local service costs to those of other similar local governments as a way of determining where improvements can be made
- ! To maintain standards—monitoring service performance against established performance targets or benchmarks
- ! To compare sectors—comparing costs of public-sector service delivery to costs of private-sector delivery of the same type of service

#### # Other Performance Information

Performance measurement should not be limited only to performance indicator data. Four other major categories of performance information should also be considered:

- ! **Service Need (Demand for Services).** Service need indicators or demand measures indicate the scope of the program or the need for the service. For example, crime statistics (e.g., number of robberies) are a good example of a measure that can provide an indication of the level of demand for police protection. Demand measures are particularly useful for programs or departments that provide a direct service to the public. Other examples are: population to be served; number of households to be served; number of street lights to be maintained, and kilometers of drains to be cleaned.
- ! **Demographic and Other Information.** This is used to categorize the characteristics of work that come into a program. Thus for some programs information should be available as to the age, gender, geographical location, and income group of customers. A program that processes applications might want

##### Demand for Services

To a certain extent, service need indicators represent demands from various stakeholders—a critical component of SBB. Demand comes from various sources, which must be understood and reconciled during the budget process. Some examples are:

- Citizen request/demand
  - Department heads advocate
  - Leaders visions
  - Higher levels of government mandates
  - Political parties ideology or program

information on the complexity of the incoming workload. Programs working with business customers might want information on each businesses' industry classification, size, and location. Hospitals need information on the severity of illness of their patients to help assess success, and road maintenance programs will be concerned with the amount and type of traffic, and soil conditions of certain road segments. This information should be linked to outcome indicators for the service. For programs in which a mix of approaches are used, it is also useful to have information on the service delivery approach. For example, the number and type of assistance provided to customers with similar problems might vary.

- ! **Amount and Type of Incoming Workload.** This refers to the amount of work that comes into a program or is in process but not yet completed. For example, the amount of workload pending from the previous reporting period plus the new workload coming in indicates the workload on the program during a reporting period. In human services programs the workload is usually expressed in terms of the number of customers (or individual clients), households, or businesses. In road maintenance programs the workload may be the number of lane-miles that need repair.
- ! **Explanatory Information.** This helps to interpret performance data and explain why the results occurred. This information can be either qualitative or quantitative. It may also state factors that are either internal to the program (for example, the program unexpectedly lost key personnel during the reporting period) or external over which the program had little or no control (e.g., change in economic or weather conditions).

### 3.0 BUDGET PREPARATION

Like any process, successful budgeting requires planning and preparation. Service-based budgeting addresses three questions: What do the citizens want? What is the city going to focus on in the coming year? How are municipal resources going to be used? The city mission answers the first question, the annual goals answer the second, and the municipal budget answers the third. All governance levels must be involved in planning the budgetary process so as to maximize efficiency.

The tools required in preparing a budget include the (see the budget preparation manual for all forms):

- Budget calendar
- Transmittal letter from the Mayor
- Transmittal letter from the finance director (budget officer)
- Estimate of revenues and expenditures
- Budget request forms
- Detailed instructions on how to fill the budget request forms
- Definitions of key terms

Each of the above is explained below:

#### ***The Budget Calendar***

To ensure that the budget is enacted prior to the beginning of the fiscal year, a budget calendar should be developed that establishes all key dates and phases in the preparation of the budget. The budget officer should prepare the budget calendar after consultation with legislative and executive officials. Usually the calendar includes dates for the following activities:

- Distribute budget worksheets, instructions, and guidelines to departments
- Prepare expenditure estimates
- Prepare revenue estimates
- Submit department budget requests to the budget officer
- Compile budget requests into a single budget document and complete necessary summary schedules
- Review budget requests
- Present the budget to the legislative body
- Distribute drafts of new ordinances
- Hold budget hearings

#### **The Budget Calendar**

The bulk of the planning process involves establishing the activities that must occur during budget preparation and execution, including who is responsible for performing them and the time frame for their completion—usually presented on a budget calendar. Part of the planning process includes a modification of traditional patterns of organization, execution, control, and leadership.

**Exhibit 3-1  
Budget Calendar Phase A, Part 1:  
Decide Annual Goals and Objectives Based on the City's Long Term Vision and Community Needs**

<b>Steps and Procedures</b>	<b>Responsibilities</b>	<b>Participants</b>	<b>Required by</b>	<b>Deadline</b>
A.1 Call for citizen-focused service goals Message from the Mayor	Participate in public dialogue that leads to possible goals for city consideration	Mayor, deputy mayors, heads of departments, citizens, non - governmental organizations, etc.		May-June
A.2 Training on Constant Supply of Services Concept	Based on the Budget Reference Manual	Finance Department, Heads of Departments, Operating Managers		Early June
A.3 Defining the base for the budget process	Report on the execution of the current fiscal year budget (Jan-June)	Mayor, Deputy Mayor for Finance, City Council	Art. 25 MBA	Mid July
A.4 Incorporation of public-recommended goals and program initiatives in city's annual goals	Devise coherent program goals that lead to service enhancements with full costs identified	Deputy mayors, heads of departments		End of July
A.5 First revenue estimate	Trend analysis and other techniques applied over data from Territorial Tax Office	Deputy Mayor for Finance	Art. 11 para1-2 MBA	Mid August
A.6 Elaboration of objectives by area	Objectives identified within teams	Deputy mayors, secretary, heads of departments and division		Second week of August
A.7 Consideration of elaboration and discussion	Reasoned defense of identified objectives	Mayor, deputy mayors, secretary		Third week of August
A.8 Decision-making on administration's objectives for next fiscal year	Precise formulation of objectives by area and type of services	Mayor, deputy mayors, secretary		Fourth week of August
A.9 First Draft Budget Prepared	Full version of the budget document required by MoF	Deputy Mayor for Finance	Art. 17 NPBA Art. 11 para 3 MBA	Fourth week of August
A.10 Training on Budget Requests Process	Based on the Manual	Finance Department, Heads of Departments, Operating Managers		Fourth week of August
A.11 General guidelines	Clarification of the "sustained level of services provided" method and distribution of budget request forms	Deputy Mayor for Finance, deputy mayors, heads of public-financed organizations		First week of September

### Phase A, Part 2: Decide Annual Goals on the Basis of Budget Requests and Revenue Evaluation

	Steps and Procedures	Responsibilities	Participants	Required by	Deadline
A.12	Receipt of base-budget requests and enhancements requests	Verification of compliance with instructions and completeness of execution, return of deficiencies for rectification	Head of budget division, chief accountant		Mid September
A.13	Priority sorting	Sorting of requests by type of service/function	Deputy Mayor for Finance, head of budget division, chief accountant		Beginning of October
A.14	Briefing the Municipal Council on the status of the budget development	Presentation of objectives and discussion	Mayor, chairpersons of municipal council and standing committees		First week of October
A.15	Citizen participation in objectives identification	Presentation of objectives to community, public discussions	Mayor, chairpersons of municipal council, public boards, non-governmental organizations	Art. 11 para 7 MBA	First week of October
A.16	Finalization of objectives	Adjustment and fine-tuning after public discussion	Mayor, deputy mayors, secretary		First week of October

### Budget Calendar Phase B: Fiscal Analysis, Review and Deliberation of Proposed Budget

Steps and Procedures	Responsibilities	Participants	Required by	Deadline
B.1 Evaluation of budget requests	1. Analysis of requests for sustained level of services 2. Analysis of changes (increase/decrease)	Deputy Mayor for Finance, head of budget division, chief accountant		October
B.2 Analysis of revenues	Comparative analysis of tax projections, report on the 3 <sup>rd</sup> quarter budget report, preparation of own tax projection	Deputy Mayor for Finance, tax service, business community	Art. 11 para 1-2 MBA	Mid October
B.3 Evaluation of requests for service delivery enhancements	Arraying of submitted requests for increase of expenditures by priority	Deputy Mayor for Finance, deputy mayors, secretary		End of October
B.4 Preparation of draft expenditure side by function	1. Operating budget 2. Capital investments 3. Off-budget 4. Financial accounts of enterprises	Deputy Mayor for Finance, finance and accounting administration		End of October
B.5 Draft budget balancing	Collation of approved expenditures and revenue projection and increase of expenditures as requested according to priorities	Mayor, deputy mayors, secretary, chairperson of budget committee (observer)		Beginning of November

### Phase B, Part 2

	Steps and Procedures	Responsibilities	Participants	Required by	Deadline
B.6	Presentation of draft to municipal councilors (either standing committees or committee chairpersons)	Justifying the content and process of creating the draft	Deputy Mayor for Finance, standing committees or committee chairpersons		Mid November
B.7	Presentation of draft to community	Sharing and discussion with the public of the municipality's set objectives and their achievement	Mayor, public boards, non-governmental organizations, etc.		End of November
B.8	Adjustment of draft	Incorporation of opinions and recommendations of public in draft	Mayor, deputy mayors, secretary		Mid December
B.9	Final version of draft budget	Preparation of final version after adoption of annual national budget act	Deputy Mayor for Finance, finance and accounting administration	Art. 11 para 4 MBA  SBRBA(a)	Third week of December or within three days after national budget act gazetting
B.10	Presentation of the draft to the City Council	The formal act of the presentation. Mayor's letter attached.	Mayor	Art. 11 para 5 MBA	Third week of December or within three days after national budget act gazetting





### Budget Calendar Phase C: Budget Adoption

Steps and Procedures	Responsibilities	Participants	Required by	Deadline
C.1 Discussion at standing committees	Discuss draft by function and type of services	Municipal council committees, deputy mayors, standing committee members	Art. 11 para 6 MBA	December
C.2 Adjustment of draft	Incorporation of alterations as a result of committee discussion	Deputy Mayor for Finance		Mid December
C.3 Adoption of budget	Presentation by budget committee, incorporating observations of other committees; voting	Mayor, chairperson of budget committee	Art. 12 MBA	December
C.4 Making budget resolution public Mayor's message	Informing the community, stressing the most important objectives and consequences	Mayor, municipal council chairperson		End of December
C.5 Notification of public-financed organizations	Circulation of forms filled out with summarized budget figures	Deputy Mayor for Finance, finance and accounting administration		End of December
C.6 Apportionment by quarter	Quarterly apportion budget	Heads of public-financed organizations	Art. 13 MBA	Beginning of January
C.7 Sorting of apportionment		Deputy Mayor for Finance, finance and accounting administration		Beginning of January

### Budget Calendar Phase D: Budget Execution

Steps and Procedures		Responsibilities	Participants	Required by	Deadline
D.1	Monitoring of expenditures and revenues	Monitoring and control of budget execution	Deputy Mayor for Finance and finance and accounting administration	Chapter 4 MBA	Continuous
		Analysis of "budgeted-to-implemented" ratio (i.e., control over quantity of services provided)	Mayor, Deputy Mayor for Finance, deputy mayors, secretary		Continuous
D.2	Cash flow management	Preparation and implementation of program for cash flow management	Deputy Mayor for Finance, finance and accounting administration, tax service		Continuous
D.3	Develop performance indicators	Gathering of information to identify suitable indicators	Heads of public-financed organizations, deputy mayors		Monthly
D.4	Results of activity	Measuring results of services provided	Heads of public-financed organizations, deputy mayors		Quarterly
D.5	Annual report	Preparation of reports after end of fiscal year: statutory requirements, analysis of services provided	Deputy Mayor for Finance, deputy mayors, secretary	Chapter 5 MBA	End of February next year



As seen in Exhibit 3-1, the budgeting process can be divided into four phases, with the budget calendar establishing a time frame for the various steps within each phase, and clearly defining the participants and their responsibilities:

- **Phase A:** Decide annual goals and objectives based on the city's long term vision and community needs (part 1), and decide annual goals on the basis of budget requests and revenue evaluation (part 2)
- **Phase B:** Fiscal analysis, review and deliberation of proposed budget
- **Phase C:** Budget adoption
- **Phase D:** Budget execution

### ***The Budget Ordinance***

Creating a budgeting process that serves the city's needs is a time-consuming and labor-intensive process. Once a city has decided on its approach, it can formally establish the process and maintain it for a number of years via a budget ordinance. A budget ordinance allows the budget team to establish compliance methods for all city-funded service delivery units. Modifications and improvements should be made as needed, but the municipality should take advantage of prior experience and data.

The budget ordinance prescribes and communicates the city's long-term mission and is a step toward increased fiscal responsibility. Written to be ongoing except through formal amendment, the budget ordinance broadly defines the municipal budget policy and the various roles and responsibilities. Within the ordinance the municipality usually reinforces its commitment to citizen participation and customer values and defines its strategy for their inclusion in the budget process and resultant service delivery. Often the ordinance specifies the time frame and key milestones for the budgeting process.

### ***The Budget Message***

The mayor's budget message communicates the municipality's immediate mission, and focuses on the needs, resources, and objectives for the forthcoming budget year. In writing the budget message, the mayor interacts with the public, involving them in setting the priorities for the next year.

### ***Budget Requests***

The service-based budget process requires the support of the operational managers. Each operational manager will have to complete budget forms for continuation of the existing

program (constant services), any proposed expansions (enhancement requests), any capital equipment, and a service delivery management plan. Each step is explained below and corresponds to the sample exhibit in the budget preparation manual.

### Base Budget Requests

Under service-based budgeting departments prepare base budget requests. The term “base budget” refers to a department’s current service level or baseline budget, as defined by the municipal administration. Departments will prepare base budgets to maintain the same quantity of services at the same level of quality as the previous year (i.e., a constant supply of service). They will also provide performance indicators (see Chapter 2 of this manual) to justify that service objectives are being met and that the program/department should continue to be funded.

Base budget requests must follow certain rules or general instructions. The box below provides a checklist for the finance department, operational departments, and enterprises to use in reviewing constant supply of service requests.

#### Checklist: Constant Supply of Service Requests

- # Does the budget request follow the rules?
- # Is it clear what services will be provided and that the amount of services equals last year’s?
- # Are the services adequately defined in terms of whose demand is being met?
- # Does the requested resource amount maintain, but not exceed, the constant supply of service base budget amount? (Amounts exceeding the base budget should be included in a budget enhancement request.)
- # Is the service still needed?

#### A Constant Supply of Service Budget

The following example illustrates the formulation of a constant supply of service budget: An individual owns a banichki stand that serves 20,000 customers per year. This individual’s constant supply of service budget for the next year is the cost of producing banichki for 20,000 customers, which includes any cost increases for salaries, dough, cheese, supplies, or other required items due to inflation or price variability. Any additional resources required to meet an increase of customers is considered a “budget enhancement.”

In the budget process, it is assumed that present policies will remain unchanged for the next year. Expenditure and revenue estimates will only be adjusted to ensure a



constant supply of service. For example, a factor for inflation shall be included in the annual growth formula but only at a specified rate per year. Any other increases in services (e.g., due to population growth, new national requirements) must be submitted as budget enhancements. Any decreases in services (e.g., due to population decline, removal of national requirements) will be factored into the annual growth formula by the finance department. Line items (i.e., sub-objects) that are modified upward or downward by a significant amount must be justified, and notes must explain any significant overspending or under-spending of the prior year's budget.

Below are important deadlines for preparing base constant supply of service budgets:

Requirement	Deadline
Own-source revenue projections submitted	Mid August
All expenditure requests submitted	Mid September

The finance department will review each department's request and schedule meetings as questions arise during the review process.

#### # Base Expenditures

**Personnel Expenditures.** The finance department is responsible for forecasting each department or budget unit's applicable salary and fringe benefit figures for the new budget year. For example, the new salary figures will be the current adopted budget salary figures plus any previously or currently approved adjustments. Personnel expenditure estimates will be provided to departments using the following revised benefit rates:

	Current Year	Next Year
Social Security		
Pedagogical	40 percent	40 percent
All other	37 percent	37 percent

These benefit rates are used for calculating the total salary and benefit cost of new positions on enhancement budget requests (discussed later).

Departments must clearly identify any base estimates for overtime, budgeting and justifying it on the constant supply of service budget request. All positions identified by number and title should have the labor distributed across identified service delivery areas, indicating the position's role in delivering direct or indirect services and its salary and fringe benefits:

- ! **Operations and Maintenance Expenditures.** To help departments prepare their next year constant supply of service budgets, the finance department can provide data on all expenditures, including those for operations and maintenance, for the past three years. A department can use this data to conduct trend analyses to estimate the program cost of maintaining the quality and quantity of services during the next fiscal year. If an operations and maintenance funding request varies significantly from actual expenditures in the prior two years adjusted for inflation, a justification must be provided. Effort should also be taken to incorporate the impact of any special circumstances and to explain them fully. The historical data will vary from year to year due to project stoppages, start-up of new programs, modifications, or other city initiatives. The finance department will explain such changes when providing data to departments.
- ! **Contractual Services.** As with the rest of the department's budget, line items for contractual services may be increased for inflation if necessary but only at a rate of X percent or less per fiscal year. Whenever possible, departments should contact service providers to determine if existing services will continue at current prices. All contractual service sub-objects must be accompanied by a written explanation of exactly what services are delivered through the contract. At a minimum, each explanation should include (1) who the service provider is, (2) what service is provided, and (3) how the expenditure estimate was calculated.
- ! **Utilities.** Ideally all departments should budget for utilities used in all municipal buildings. Questions about whether or not utilities should be budgeted for a certain location should be directed to the finance department.
- ! **Capital Outlay and Capital Acquisition.** Before requesting budget support for annual capital outlays, a department should ask itself the following questions:
  - Will the purchase or project be completed during the next budget year?
  - Are expenditures mostly for construction or equipment?
  - What is the estimated capital cost of the project or equipment?
  - Are expenditures for replacements or non-replacements (i.e., initial)?
  - Are expenditures associated with requested enhancements or constant services?



Capital outlay costs should not be carried forward from year-to-year.

### # **Base Revenues**

For each revenue sub-object, departments must estimate those funds that the city can expect to receive by the end of the current year and provide this information to the finance department. Any differences between actual revenue and the current year adopted budget must be explained. Departments project their revenues from each source for the next year assuming no rate increases in current fees or charges. A detailed explanation of how the department arrived at its final estimate must be provided. Initial revenue estimates are to be submitted no later than first week of October.

### **Enhancement Budget Requests**

Any resource request that exceeds the constant supply of service budgeted amount must be submitted as a budget enhancement. Questions concerning what constitutes a budget enhancement should be directed to the finance department.

### # **Expenditure Enhancements**

This type of enhancement is the most common and is typically the result of directives by the mayor, the municipal council, or the national government. An expenditure enhancement is any budgeted expenditure (personnel, capital, or other budget costs) that exceeds the constant supply of service budget. For example, as a result of complaints about illegally high retail prices, the council or mayor may direct the trade department to increase the frequency of inspections from 50 per year in the current year to 80 per year in the next year. This forces the department to hire three new inspectors. The personnel and other budget costs for these positions is the enhancement amount for next year.

Expenditure enhancements may also increase revenues related to a particular program activity. For example, because the trade department charges a fee per inspection, additional inspections will increase revenues, thus offsetting a portion or all of personnel, equipment, and other budget expenditures associated with them. Unless the unit cost for each inspection is increased, there is no reason to complete a revenue enhancement request.

## # Revenue Enhancements

A revenue enhancement is any proposal for a new source of revenue or any increase in scale for a charge, fee, and/or rate for a service provided directly by a department program. For example, the administrative services department wants to increase its charge for issuing permits from 5,000 leva in the current year to 6,000 leva the next year. The marginal increase in revenues above inflation as a result of the new rates constitutes the revenue enhancement. Rate enhancements always require endorsement from the municipal council and the appropriate standing committee. In some cases, a revenue enhancement requires a separate public hearing process. The following, (Exhibit 3-2) shows the difference between a constant supply of service budget request and an enhancement budget request for expenditures and revenues.

<b>Exhibit 3-2</b>		
<b>Constant Supply of Service Budget Request vs. Enhancement Budget Request</b>		
	<b>Constant Service Budget</b>	<b>Enhancement Request</b>
<b>Expenditures</b>		
Personnel	Existing	New position(s)
Operational	Existing	Expanded
Capital Outlay	Replacement	New or expanded
<b>Revenues</b>		
Own-Source Rev.	Projected from prior year	New fees, sources, or rates

## # The Enhancement Request Process

The development and submission of enhancement requests consists of seven steps:

- ! **Step 1.** Using the mayor's criteria (see Exhibit 3-2) and the enhancement request forms (exhibits are provided in the budget preparation manual), the departments develop their requests and rank them (1 = highest priority, 10 = lowest priority). Enhancements related to capital improvement program (CIP) projects are ranked separately from the program/service-based enhancements.
- ! **Step 2.** The departments submit ranked enhancement requests to their deputy mayor or city secretary for discussion and prioritization. The departments also submit CIP enhancements to the finance department.





- ! **Step 3.** The deputy mayors and the city secretary discuss and rank the enhancements for all departments (1=highest priority, 10=lowest priority). As in Step 1, program/service-based enhancements are ranked separately from the CIP enhancements. There are no sub-rankings, and enhancements should not be tied to each other.
- ! **Step 4.** The deputy mayors and the city secretary submit prioritized program/service-based enhancement requests, including any background information (e.g., quantitative data on how the enhancement will affect the management plan) to the finance department. This is followed by their ranking of CIP enhancements, based on the project's ranking in the plan.
- ! **Step 5.** The finance department provides any comments on all enhancements to the deputy mayors and city secretary and meets with the mayor for final discussion. Comments on CIP enhancements are also sent to departments.
- ! **Step 6.** The mayor meets with the deputy mayors and city secretary to identify his and the municipal council's program/service-based enhancements priorities. After consultation the mayor makes the final recommendations for CIP enhancements.
- ! **Step 7.** The finance department incorporates the recommended enhancements into the proposed budget. (Enhancements are not budgeted in department budgets, but as decision increments to be considered separately).

### Exhibit 3-3

#### Mayor's Criteria for Consideration of Enhancement Requests

The enhancements developed by departments and functional units must adhere to the following guidelines in order to receive the mayor's recommendation for approval:

**An enhancement must meet all of the following criteria:**

- ! It must have a direct impact on the adopted municipal strategic plan.
- ! It must have a documented impact on a department's management plan.
- ! It must have a measurable impact and be directly related to a management plan performance indicator.
- ! It must be endorsed and prioritized by the relevant deputy mayor and city secretary (or specifically directed by the mayor).
- ! It must have an implementation plan (i.e., public hearing dates, schedules, etc.).

**An enhancement must also meet one of the following criteria:**

- ! It was directed by either the municipal council, the mayor, a deputy mayor, or city secretary.
- ! It represents resource allocations necessary to comply with a national mandate.
- ! It relates to the implementation of a CIP project currently in process or proposed for FY1999.
- ! It is essential to meet a public need with a greater emphasis on customer service.
- ! It replaces a withdrawal of national funds for the maintenance of a critical service.
- ! It represents increased resource allocations to substitute for a decline in another source and necessary to maintain current service levels on a constant supply of service basis.
- ! It is essential to maintain constant levels of public health and safety.

The mayor will only recommend an enhancement to the municipal council for approval if it both (1) meets mayor's general guidelines and (2) includes any and all required attachments. The attachments can include the following:

- ! **Timeliness:** Position enhancements include a time line for recruitment, office reconfiguration, equipment purchases, etc. Revenue enhancements include an implementation time line.
- ! **Relevant management plan pages:** Pages must be revised to show improvements or maintenance in workload indicators as a result of the new position, practice, or service.

Department must complete each section of the enhancement request form carefully. Incorrectly completed forms will not be considered for review.

Departments should be as specific as possible in their enhancement requests. Departments must demonstrate the benefits to be received by the enhancement, how the enhancement will assist in maintaining service levels, how the enhancement will assist in meeting program goals, and the impact on services if the enhancement is not approved.



Exhibit 3-4 is a checklist of enhancement requests.

**Exhibit 3-4**  
**Enhancement Requests Checklist**

1. Does the enhancement request follow the general instructions?
2. Were the appropriate forms completed?
3. Is it clear what additional services will be provided or additional revenues generated?
4. Is the purpose for the proposed enhancement request clear and reasonable?
5. Did the enhancement receive a functional group ranking?
6. Were program/service and CIP expenditure enhancements ranked separately?
7. Does the enhancement directly impact the city strategic plan?
8. Does the enhancement have a documented impact on a department's management plan?
9. Does the enhancement meet one of the mayor's secondary criteria?

**# Enhancement Form Instructions**

- ! Basic Information:** Provide the department/agency and program the departmental and functional group rankings of the enhancement, and the type of enhancement (i.e., program/service or CIP).
- ! Summary Table:** Information in this table is the total expenditures and revenues of the enhancement.
- ! Expenditures:** This line is for the total increased expenditures as a result of this enhancement (combination of all expenditure sub-objects).



- ! **Revenues:** This line is for the total offsetting revenues that will result from this enhancement (combination of all revenue sub-objects).
- ! **Local Tax Funding:** This line describes the net fiscal impact associated with the proposed enhancement (expenditures less revenues). This is the difference between the total expenditures and total revenues related to the enhancement.
- ! **Personnel:** If the enhancement includes new permanent positions, include the number of full-time equivalents (FTEs) and the official titles and job classifications of each new position.
- ! **Description of Enhancement:** This section should include:
  - The type of enhancement being requested (e.g., maintain service levels, new program, operating costs of implementing a CIP project, revenue enhancement, etc.) and its cost
  - The resulting program and activities
  - The quantifiable and measurable benefits to be achieved by the enhancement
  - The effective date for the enhancement
  - The mayor's secondary criteria (i.e., "must meet one") met by the enhancement
  - Attach any relevant background information.
- ! **Enhancement's Relation to the Department Mission:** Explain how the enhancement enables the department to achieve its stated mission. Attach any relevant background information.
- ! **Enhancement's Impact on the Management Plan:** Explain how the enhancement will affect the department's management plan. Attach a revised management plan page and/or quantifiable background data.
- ! **Impact If Not Approved:** Specifically explain any consequences that are anticipated to result from the rejection of this enhancement. Quantify the impact where possible, and attach the relevant pages of the management plan.

- ! **Detailed Table:** This table provides specifics on the information presented in the summary table (Item 2). Attach any relevant background information.
- ! **Expenditures:** Identify all personnel, operations and maintenance (O&M), and capital outlay costs associated with this enhancement by program and sub-object for FY1998 and FY1999.
- ! **Revenue:** Identify revenue, fees, or grants associated with this enhancement by program for FY1998 and FY1999.
- ! **Local Tax Funding:** Identify the net fiscal impact (revenues less expenditures) for each program associated with this enhancement for FY1998 and FY1999.
- ! **Implementation Time line:** Provide a schedule if the enhancement is such that it needs to be implemented over time. Identify:
  - When staff will be recruited, hired, and trained
  - Key actions and necessary milestones
  - Completion dates (if applicable)
  - Highlight approximate dates for key events using letters or numbers, and provide a brief explanation of each key event

## 4.0 BUDGET ANALYSIS

Budget analysis is important because it helps support the following budget decisions:

- ! How much the local government can afford to spend;
- ! How will new priorities be funded; and,
- ! How will existing services be made more efficient.

### Using Fiscal Analysis

The principles of fiscal analysis described in this chapter should be used by departments, enterprises, and community organizations as they prepare their base budget and enhancement requests. By conducting their own revenue analysis, activity-based costing, and departmental budget preparation, these groups will avoid being "surprised" by the finance department's findings.

In reaching the above budgetary decisions, the department of finance has many responsibilities, including:

- Providing generalized municipal information for all funded departments, enterprises, and community groups;
- Issuing comprehensive budget instructions that are reasonable and understandable;
- Communicating with stakeholders;
- Preparing information for the public that allows understanding and discussion of budget issues;
- Providing the mayor, deputy mayors, and municipal council with fiscal information for making informed decisions;
- Offering advice and assistance to departments in completing budget request forms and department management plans;
- Reviewing enhancement options requested by the mayor and municipal council
- Analyzing departmental requests;
- Helping the mayor and municipal council prepare for public meetings and considering public comments from meetings and hearing(s);
- Proposing a balanced budget for serious consideration and review;

- Reconciling the final adopted municipal budget to national executive budget and municipal council decisions;
- Suggesting improved or additional financial policies;
- Meeting national statutory requirements to comply with the Ministry of Finance;
- Adjusting the budget process to accommodate appropriate recommendations from the audit chamber; and
- Notifying the departments, enterprises, and community groups of final budget decisions.

This partial list is important because the finance department must take leadership in all of the above areas if the enabling ordinance identified in Chapter 3 is to have the positive and necessary impact that was intended. With the preliminary submission of budget requests, the process turns to fiscal analyses—both revenue/expenditure forecasting and activity-based costing—all of which relies on the finance department's professional expertise and hard work.

### ***Revenue Forecasting***

Revenue forecasting (or estimating) is an art, not a science. Forecasting is the process of calculating in advance, of making a determination today of the value of a variable in the future. Forecasting for the short term and forecasting for the intermediate or long term, require different forecasting methods. Revenue analysts generally employ one or more of the following types of models in projecting revenues for budgetary (or multi year forecasting) purposes:

- ! Expert Judgment.** The key to the successful use of this technique is the “expert” who possesses substantial knowledge and experience in the estimation of annual budget revenues. To produce consistently successful forecasts, an expert must know the revenue system, the local economy, and how to obtain additional information. Expert judgment is widely used in estimating annual revenues, often in conjunction with trend analysis. Expert judgment and trend analysis are simple and inexpensive forecasting methods that are ideal for certain revenues, such as the property tax. The disadvantages associated with expert judgment are its dependence on the subjective views of the expert and the risk of the expert leaving the position and taking the forecasting model along.





- ! **Trend Analysis.** This technique relies on the assumption that revenues are a function of time. One of the most common assumptions in trend analysis is that the annual revenue growth rate in the future will be the same as that in the past. Trend analysis can be applied to all revenue sources, including business licenses, building permits, sales taxes, and property taxes (see a sample trend analysis below). As mentioned above, trend analysis is often used in conjunction with expert judgment to estimate budget revenues. A limitation of trends analysis is that it never predicts a “turning point” in a revenue stream; rather, it predicts a continuation of the increases or decreases previously experienced, regardless of any changes taking place in the economy. This can lead to overestimating or underestimating revenue collections.
  
- ! **Deterministic Forecasting.** This approach to revenue forecasting allows for variables other than time by focusing on the rates and bases of revenues. For example, revenues from auto registration fees are a function of the number of registered automobiles and the registration fee per automobile. By projecting the number of automobiles registered in a municipality, one can easily develop an estimate of automobile registration revenues. This approach is often criticized as being too linear. It has many of the same flaws as the trend analysis and expert judgment techniques.
  
- ! **Econometric Forecasting.** This technique is much more complex than the methods described above. Under this approach, historical revenues are related to economic and demographic variables, which, in turn, links revenue estimates to anticipated fluctuations in those indicators. In econometric forecasting, several independent variables are used concurrently and systematically to produce revenue estimates. Use of this technique enables “what if” analysis, which provides estimates of the effect of a range of outcomes under alternative assumptions. Despite its greater flexibility, this technique has several weaknesses. It is very costly in terms of data needs, staff time, and expertise and requires the use of computers. For the most part, this technique is used for multi year revenue and expenditure forecasting.

### Sample Trend Analysis

Trend analysis involves analyzing historical data (for at least 3 years), accounting for changes in local revenue sources, identifying positive and negative economic conditions, adjusting for inflation, and making careful judgments in analyzing the data. The first part of trend analysis—analyzing historical data—follows these steps:

- ! **Step 1.** Identify and list each revenue source (e.g., property taxes, sales taxes, etc.). Sources should be projected separately because trends can vary by source.
- ! **Step 2.** Find the difference in revenues between each year.
- ! **Step 3.** Calculate the percentage change between each year.
- ! **Step 4.** Sum the percentages for all years.
- ! **Step 5.** Divide the total by the number of percentage changes (e.g., for 3 years of historical data there would be two percentage changes). This provides the average annual percentage change for the period studied.
- ! **Step 6.** Multiply revenues for the current fiscal year by the average annual percentage change. Add the result to current revenues to project revenues for the upcoming fiscal year.
- ! **Step 7.** Adjust the projected revenues for changes in inflation, population growth or decline, laws impacting local revenues, and economic activity.

The following example shows how trend analysis may be used to estimate the “business licenses” revenue source. A review of financial records reveals the following:

Fiscal Year	Revenue from Business Licenses (in leva)
1991	1,000
1992	1,200
1993	1,300
1994	1,500
1995	1,900
1996	2,100
1997	?



The figures above are used to calculate the rate of change between each year's collected business license revenues:

			<b>Rate of Change</b>
$\frac{(FY1992 - FY1991)}{FY1991}$	$= \frac{(1,200 - 1,000)}{1,000}$	$=$	0.20 or 20 percent
$\frac{(FY1993 - FY1992)}{FY1992}$	$= \frac{(1,300 - 1,200)}{1,200}$	$=$	0.08 or 8 percent
$\frac{(FY1994 - FY1993)}{FY1993}$	$= \frac{(1,500 - 1,300)}{1,300}$	$=$	0.15 or 15 percent
$\frac{(FY1995 - FY1994)}{FY1994}$	$= \frac{(1,900 - 1,500)}{1,500}$	$=$	0.26 or 26 percent
$\frac{(FY1996 - FY1995)}{FY1995}$	$= \frac{(2,100 - 1,900)}{1,900}$	$=$	0.10 or 10 percent

The rates of change are added up and divided by the number of changes over the period:

$$\frac{20\% + 8\% + 15\% + 26\%}{+ 10\%} = \frac{79\%}{5} = 16\%$$

5 changes

The average rate of change is applied to the current year\*s (FY1996\*s) revenue to estimate how much revenues will increase for FY1997:

$$2,100 \times 0.16 = 336$$

Adding this increase in revenues to the current year\*s collections provides the estimated revenue from business licenses for FY1997:

$$336 + 2,100 = 2,436 \text{ leva to be collected in FY1997}$$

If a municipality does not have data on each revenue source or if staff resources are limited, trend analysis can be performed with total revenues. The city should keep in mind, however, that the result of such an exercise is more an approximation than a projection. The basic historical data analysis described above does not constitute a complete trend analysis. In projecting revenues, the finance department should take into account the following factors:

- ! Changes in the law that impact the municipality\*s ability to collect the revenue source.
- ! The rate of delinquent taxes and fees (e.g., are all revenues due to the municipality being collected in a timely fashion? If not, what actions will correct this situation?).
- ! Unusual or seasonal changes in the revenue source (e.g., was a large, one-time revenue received in the past?).
- ! Inflation\*s effect on real growth.
- ! Special problems in collecting a particular revenue source.

In addition to local revenue projections, trend analysis can be performed to estimate the level of central government transfers likely to be received. Although it is difficult to predict this major component of municipal revenue, assumptions must be made to obtain some projection of this critical revenue source. As a starting point, these revenue projections can be based on receipts from prior fiscal years, making adjustments for inflation and any actions the Ministry of Finance and the Parliament are likely to take. After the analysis is completed, the finance department should identify when in the fiscal year each revenue source will be



received and the amount to be collected. This will serve as a revenue and cash flow plan. Once the fiscal year begins, actual revenue collections should be monitored against this plan and adjustments made accordingly.

### Other Considerations

As a general rule, it is best to be conservative in revenue forecasting. It is better to underestimate revenue projections than to overstate them. This will help to avoid budget shortfalls and the need to cut back services once the budget is implemented. In addition, officials charged with the development and monitoring of the annual budget should consider the following when working with revenue forecasting:

- ! **Setting Goals for the Accuracy of Estimates.** Top management should set goals for revenue estimate accuracy. Although perfection is not possible in forecasting, an acceptable level of variance should be established. Most revenue analysts are satisfied when actual collections of major revenue sources are at least 95 percent of estimates—assuming that revenue bases and rates are stable. Although the effects are not detrimental to a municipality's fiscal situation, positive variances (i.e., overestimates) should not exceed 5 percent of estimates.
- ! **Implementing Methods to Control Spending.** Of all aspects of the prior financial system, spending controls were the most developed. With the emergence of service-based budgeting, line-item spending controls should be relaxed by giving responsible operational managers discretionary authority to deliver promised public services in the most cost effective method. Managers must be held accountable for their decisions and rewarded for taking innovative steps to better serve the customer. Their actions, however, must be performed within program mission statements and within the policy guidelines of the municipality.
- ! **Using Multi-year Revenue and Expenditure Forecasting.** Multi-year revenue (and expenditure) forecasting can provide important information to budget officials. By employing econometric modeling, multi-year forecasts can help to identify turning points in revenue streams and also describe outcomes under a variety of scenarios.

### **Activity-Based Costing (ABC) Technique**

ABC sets out to answer the following questions concerning municipal performance:

- What does it cost the city to provide a service?
- Is the city's cost of providing services competitive in the marketplace?
- Is there an alternative delivery system that can provide the same service at a lower cost or at greater value?
- Is there a cause-and-effect relationship between spending and results?
- What outcome can citizens expect?
- How do the city services respond to customers needs?

As a brief overview, ABC is a very useful technique for determining the full cost of providing a city service. By identifying component cost details, cost impacts, and savings from alternative courses of action, ABC can be used to compare delivery costs for the same service in different locations, as well as to highlight areas of efficiency and areas needing improvement. Attaching costs to the performance of specific activities enables city departments to measure the quality, efficiency, and effectiveness of the services delivered, and is therefore a key tool for analyzing the base level of service.

The objectives of ABC are as follows:

- ! To preserve, at a minimum, the present quality and availability of core services while acknowledging that some external factors may impact expenditures and are beyond the control of the municipality.
- ! To reduce the costs of service outcomes by: (1) reducing the number of service units through program redesign, (2) finding lower-cost alternatives for providing services, and (3) making any volume increases that lead to cost reductions.

The key components examined by ABC are:

- ! Activities: the tasks performed by employees, equipment, and facilities;
- ! Drivers: the linking of activity costs to outputs;
- ! Outputs: the final results or accomplishments; and
- ! Consumption: the extent to which each activity should be allocated to each output.



Exhibit 4-1 illustrates how traditional cost information for snow removal and pothole patching are tied to the activity level by using an ABC model. This example shows that ABC makes it possible to identify the cost of the two distinct services or activities. This is important because some departments or enterprises deliver a wide variety of services.

#### Exhibit 4-1

#### Total Cost of Service: Snow Control (12 road miles) and Pothole Patching (14 tons of mix)

##### Activities (Cost summary)

Activity Name	Total Dollars
C Labor	1000
D Labor	600
Salt	400
SAD	400
Central service Overhead	200
Total	2600

C=snow control; D=patching potholes

##### Activities and Related Drivers (Definition of inputs)

Activity Name	Driver
C Labor	C Hours
D Labor	D Hours
Salt	Tons of salt
SAD	SAD Hours
Central service Overhead	Total labor hours

##### Consumption (Level of effort/unit summary per activity)

Drivers	Snow Control	Patch Potholes	Total
C Hours	50	50	100
D Hours	10	20	30
Total labor hours	60	70	130
Tons of salt	500	0	500
SAD Hours	80	70	150

##### Total Cost per Activity

Activities	Snow Control	Patch Potholes	Total
C Labor	500	500	1000
D Labor	200	400	600
Salt	400	0	400
SAD	213	187	400
Central service O/H	92	108	200
Total	\$1405	\$1195	\$2600

##### Calculated unit costs:

12 miles of road                    @            \$117.08/mile (snow removal)  
14 tons of mix                    @            \$85.36/ton (patch potholes)

Activity-based costing occurs over five phases, as described below:

- ! *Phase I: Definition of Project Objectives and Establishment of Department Activities and Outputs.* This first phase focuses on becoming familiar with department operations, personnel, and quantifying data. The activities and outputs are identified.
- ! *Phase II: Collection and Analysis of Appropriate Costs and Allocation Methods.* In this phase, relevant cost information is collected. After cost information is accumulated, appropriate cost drivers for the activities defined in Phase I are developed. In addition, the most effective means of measuring departmental outputs are determined.
- ! *Phase III: Collection of Current Direct and Indirect Cost Information.* Similar costs are pooled into categories which then can be used for easier direct and indirect cost analysis. Activity cost pools are routinely established on computer-based spreadsheets so that detail can be summarized. The most common activity cost pools are personnel, direct materials, vehicles and equipment, fixed asset and facility costs, and administrative overhead.
- ! *Phase IV: Development of an ABC Model.* An ABC model to assign the activity cost pools to each output is developed using the information from the first three phases.
- ! *Phase V: Production of Cost Information and Expansion of the Departments\* Capabilities for Continued Use of the ABC Model.* In order for the ABC model to be utilized most effectively, the operational managers have to believe that cost is a variable that can be changed. The data collected through ABC help instill in operational managers a willingness to make changes that will lower costs or improve services.

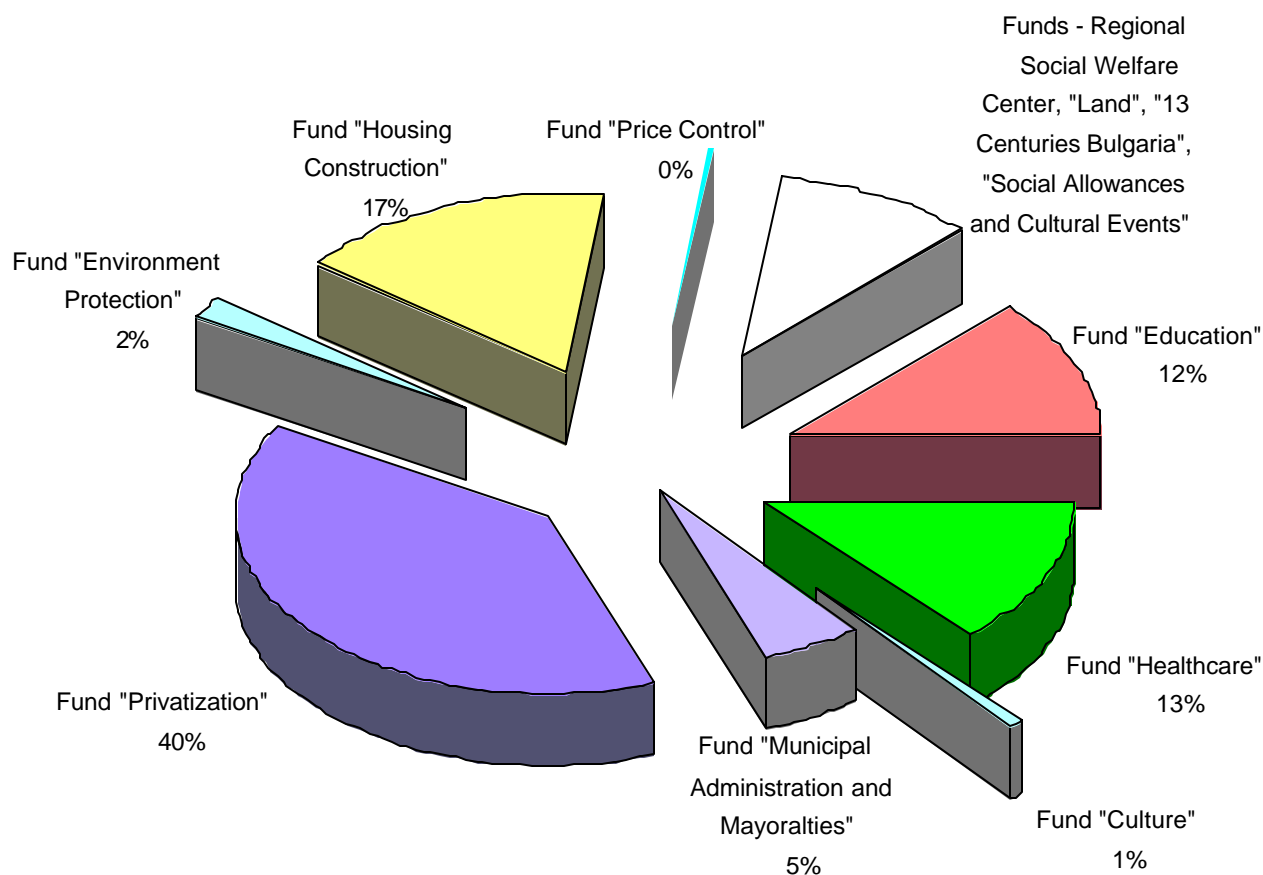
### **Off-Budget Resources**

Off-budget (or extra budgetary) items are resources that are accumulated and expended according to municipal law without being incorporated into the municipal budget. While it is a very important aspect of the municipality's expenditure plan, off-budget resources offer more flexibility and less accountability and transparency than budget resources. Razgrad's total off-budget revenue for FY1998 amounted to BGL 2,077,051,000, a figure representing one-seventh of the city's total budget and one-fifth of local revenue. Exhibit 4-2 shows off-budget funds for FY1998.





**Exhibit 4-2**  
**Distribution of Extra Budgetary Revenues for 1998 by Funds**



The legal framework for off-budget resources is established by several statutory provisions (see Appendices):

- Chapter 7 of the State Budget Procedures Act;
- Chapter 9 of the Municipal Budgets Act; and
- Clauses 9, 10, and 11 of the 1998 State Budget of Republic of Bulgaria.

Off-budget resources are accumulated and expended through off-budget accounts and funds whenever they are established through:

- An explicit legal provision; or
- A particular declaration of will—donation, testament, local referendum, or other means—delegated by individuals or organizations.

### **Reporting and Management of Off-Budget Resources**

Off-budget resources are accumulated and expended in compliance with the uniform budget classification. They are reported on the cash accounting principle through annual revenue and expenditure accounts that the municipal council adopts with its budget. If a municipal budget has not been adopted, the municipal council adopts off-budget accounts within a month of the opening of the budget year. The municipal council adopts the off-budget expenditures report along with the report on the municipal budget execution. Despite their specific nature, the management of off-budget funds is governed by several general principles:

- Strict monitoring of resource allocation;
- Optimal efficiency in expending resources, especially when used for investment;
- Establishment of a cash flow management program for each individual fund;
- Application of basic budget-drafting procedures (since most allocations relate to service provision); and
- Creation of performance indicators for every activity financed by off-budget resources.

### **Certification and Control**

The chart of accounts and the reports for off-budget resources must be submitted to the regional subdivisions of the Chamber of Accounts and to the Ministry of Finance. The reports are submitted along with municipal budget execution and budget accounts reports. The reports on off-budget accounts and funds are subject to certification by the Chamber of Accounts under the procedure for certification of reports on the budget execution.



### Off-Budget Accounts and Funds in Razgrad

- ! Privatization Fund
- ! Environmental Protection Fund
- ! Housing Construction Fund
- ! Price Control Fund
- ! Land Fund
- ! 13 Centuries Bulgaria Fund
- ! Social Welfare and Cultural Services Fund
- ! Fund operating under the authority of the Regional Center for Social Assistance
- ! Off-budget account to the Education function
- ! Off-budget account to the Health Care function
- ! Off-budget account to the Culture function
- ! Off-budget account to the Municipal Administration and Mayoralties function

### Municipal Enterprises

A municipal enterprise is an entity of the municipality that specializes in providing goods and services, and catering to the community needs. It is one of the primary organizational units through which a municipality implements its business activities.

#### Relations with the Municipality

Municipal enterprises are created, transformed, and shut down by decisions of the municipal council. Enterprises therefore may be subject to the municipality's budget process, if the municipal council orders it so. Because the mayor signs the employment contracts of the municipal enterprise managers, the managers may be included on the mayor's expanded budget team. Enterprises operate according to municipal council regulations regarding:

- The scope of activity (i.e., the type of municipal service);
- Allocated property and funds;
- Management bodies and their membership;
- Financial relations;

#### Performance of Municipal Enterprises

The mayor and the municipal council are ultimately responsible for the performance of municipal enterprises. The enterprises' relationships to the municipality are defined by actions and contracts enacted by the municipal council. As tools for making municipal services more effective, municipal enterprises should operate as an integral part of the municipality as a whole, and of the budget process in particular.

The approval of an enterprise's off-budget accounts is not an indication of any measurement of its performance. For this reason, a system of objective, enterprise-specific indices and measurement tools should be devised in the future for assessing, analyzing, and evaluating their performance within service-based budgeting.

- Accounting; and
- Regular reports on the work performed.

The municipal council establishes the size of the revenues and expenditures in the enterprise's off-budget account. Off-budget accounts are annual and adopted by the municipal council along with the municipal budget (see Annex N).

### **Enterprise Activities**

Municipal enterprises enable municipalities to provide certain types of services. Enterprises typically are created for the performance of activities that:

- Are a responsibility of the municipality by force of a law or a local decision;
- Require specific training and therefore may not be performed by the municipal staff; and
- Do not involve any business risk.

A municipality can set up municipal enterprises to provide various services including:

- Urban planning and public works (i.e., municipal infrastructure construction and maintenance);
- Municipal market places and open-air commodity markets;
- Social services and ceremonies;
- Municipal fixed assets for culture, education, health care, sports, and social activities
- Holiday-making and school and canteen catering;
- Municipal housing and premises; and
- Transport service.

### **The Next Step**

Once the proposed budget has been prepared, the mayor and finance department present it to the municipal council and the public. Guidelines for budget presentation are discussed in the next chapter.

## **5.0 BUDGET REVIEW, DELIBERATION AND ADOPTION**

In Bulgaria local governments are required by law to operate within a balanced budget. Since demands or total request for funds are typically larger than existing available resources, a budget review is necessary to bring budget requests into balance with available revenues. The review process also offers an opportunity for prioritizing services to be delivered to the citizens. Once budget requests have been submitted, the deputy mayor for finance and economic development (hereafter called the budget officer) should meet with each division, department, school, or other entity with an entry in the budget. The municipal budget staff should then draft a balanced budget for consideration and review that takes into account the goals of the mayor and municipal council, various requests, and revenue information. Once the review is completed, the budget requests and recommendations are assembled into a budget document and presented to the budget committee of the municipal council for consideration, and to the public for open deliberation. After making desired modifications, the budget is finally adopted.

### ***Budget Review and Deliberation***

The review process ensures that the total proposed governmental expenditures do not exceed the total of estimated revenues, by removing unnecessary, ineffective, and inefficient activities. In reviewing requests from department heads for program expansion (based on claims that services must be increased), the budget officer should first determine whether the perceived need for more resources can be met by altering the mix of existing resources. A department requesting budget enhancements must be able to substantiate the magnitude of need. Relevant workload data must be furnished to demonstrate the level of existing activity, the degree of achievement attained, and any remaining work to be done.

Program objectives and performance indicators should be tied into budget requests. The budget officer must also determine whether the objectives of an activity could be achieved just as well with less than the resources requested, and may establish priorities based on major issues or potential fiscal problems facing the locality. Budget request forms with detailed justification of department requests are therefore very useful in analyzing resource requests. The sample budget request forms in the budget preparation manual (Chapter 2: Tools of Budget Preparation) request performance indicators from the departments. After the revenue estimates and expenditure requests have been examined and reviewed by the budget officer, he/she assembles in draft form all the information that comprises the budget document, and starts the process of budget deliberation.

A budget is a reflection of policy decisions related to revenue mobilization and taxation as well as program funding and service delivery to the public. The budget deliberation process can be done openly and with significant input from citizens, or it can be done without their active involvement. An open deliberative process provides the opportunity to consider various options, generate new ideas not previously considered, involve citizens, and ultimately

build a more accountable and responsive system of local government. On the other hand, public involvement can lead to conflict over taxes and spending programs and can be more time consuming. Budget managers should plan a process that benefits from public input while avoiding the creation of an open-ended process subject to a great deal of change.

Communicating the budget to the public can be done through news releases, bulletins posted on city hall boards, or other announcements. A written summary that explains the major budget elements in a manner that can be easily understood is quite helpful. For the budget submitted to the budget committee, this summary can be a letter attached or bound to the budget. The summary describes:

Governmental goals for the budget year  
Important activities anticipated in the budget

Reasons for any changes from the previous year's goals, programs, and appropriation levels

Any major fiscal policy changes

Using graphics when presenting budget material is always helpful, especially to the general public.

### The Rationale for Open Deliberation

Open deliberation allows for more public participation in the budget process. An open process promotes citizen understanding of government and government understanding of citizens. It brings people together to make choices, builds relationships and trust, and ultimately results in better and long-lasting decisions. Informed groups generally are better than individuals at estimating realistic sustainable solutions, generating alternatives, recalling the past accurately, making judgments about unverifiable issues, and building wide acceptance when necessary. It is generally better to solicit input from citizens prior to the issuance of a budget than after the process has been put far into motion.

Open deliberation gives citizens the ability to:

#### Public Participation Self-Test

- Is public opinion sought concerning the budget?
- Is public opinion sought before major decisions are made?
- Do citizens' views have some authority rather than regarded as advisory and often ignored?
- How open are budget processes? How many open budget planning and evaluation sessions are held? How far ahead is notice given of these meetings? Is the notice printed in the newspaper? Are the meetings held at a time when citizens can attend?
- How much explanation of the budget is given at meetings and in documents? Is the language understandable to an ordinary citizen?
- Does the jurisdiction make a concerted effort to involve citizens or make the budget process interesting to them?
- How much publicity is there about the proposed budget?



- A. Protect their own interests
- B. Have greater control over government decisions
- C. Develop an in-depth understanding of the issues
- D. Understand the complexity of the budget process

Open deliberation gives the government the opportunity to:

- Build trust with citizens and enhance its reputation as a partner that truly works with and on behalf of citizens—not against them
- Build public consensus for the spending plan

Open deliberation, however, also has disadvantages for the government:

- Additional time demands
- Emotional demands
- Potential difficulties of identifying issues irresolvable at the municipal level
- Less apparent control over the outcome

Although excessive openness can result in undue influence from special interest groups and slow the budget process down, it is important to keep the process somewhat open. This can be done by creating citizen committees to represent the interests of the community at large. Contact between the council and special interest groups can be done in a public forum to prevent interest groups from unfairly pressuring council members. The expectation is that open deliberation is a worthwhile effort that will result in a budget that is better understood by government and citizens and better responds to the needs of the community.

## Increasing Citizen Involvement

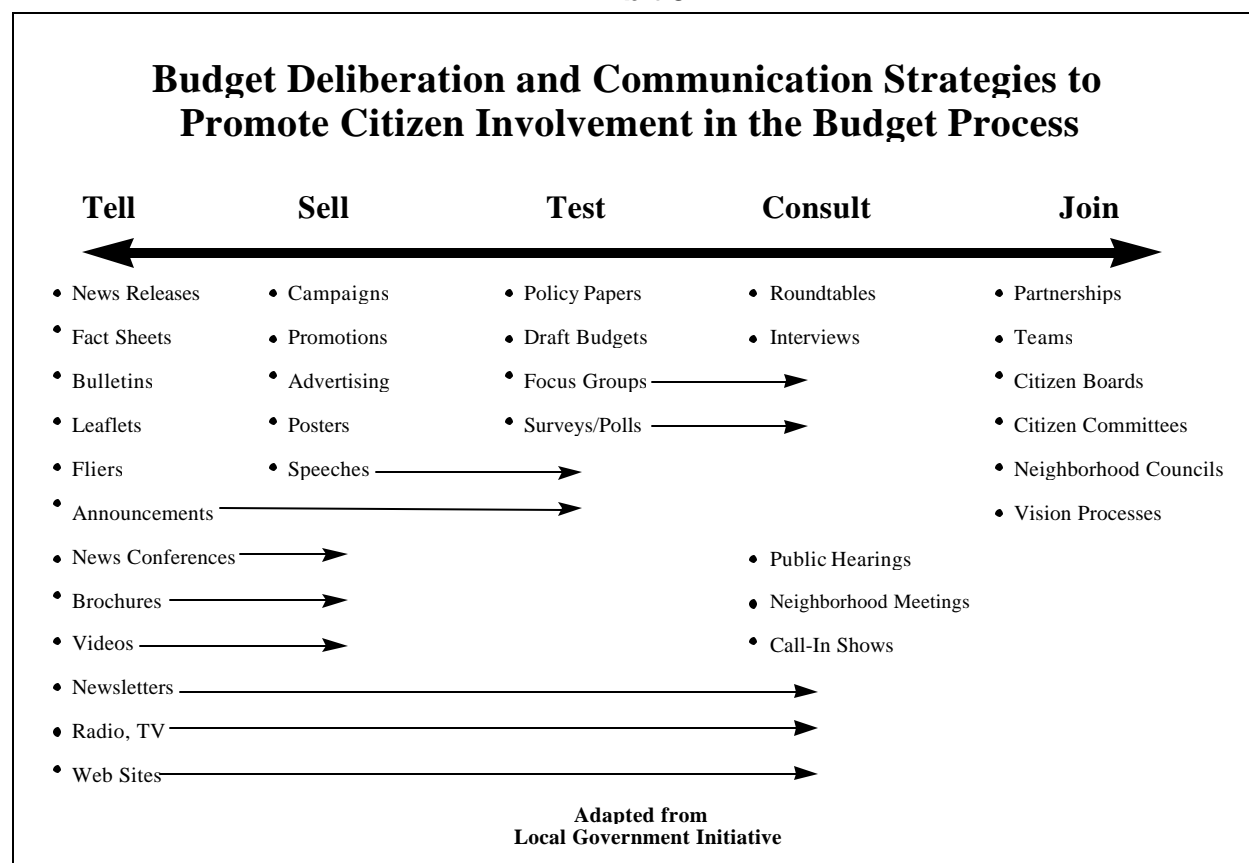
A comprehensive and proactive approach to citizen involvement is the Tell-Sell-Test-Consult-Join methodology (Exhibit 5-1). This approach to public involvement takes citizens from the “awareness raising” stage to the “active involvement” stage.

### Methods of Presenting Budget Issues to the Public

- ! Household mailing
- ! Tax bill insert
- ! Newspaper inserts
- ! Brochures distributed by service users/clients
- ! Fliers explaining budget of specific programs.



Exhibit 5-1



## The Public Hearing Process

Public budget briefings held by the municipal council's budget committee are called "hearings." Although there are a variety of ways to conduct the public hearing process, at least one public hearing on the entire budget must be held to allow citizens to voice their opinions to the board. There are several steps the government can take to ensure an effective hearing process (see sidebar). Cities can complement the general hearings with budget briefings and dialogues on issues that concern particular groups of citizen and/or neighborhoods. Cities interested in involving

### Ensuring Effective Budget Hearings

- Advertise widely with introductory information
- Select times when working people can attend
- Use visual aids to present budget goals for the year and vital information.
- Set up rules of behavior that govern all public hearings.
- Set time limits for individuals' comments.
- Listen to rather than debate with the public.
- Be specific with problems and proposed solutions.
- Explain how the city will consider the public hearing comments.
- Share key program milestones and bench marks.
- Thank citizens for coming and their input.





citizens before the deliberation process—in the budget development process—can hold public meetings throughout the year.

A city also can hold an informal “city hall meeting” before the formal hearings to solicit input from the community. Budget staff, department heads, and elected officials are present to engage the public in discussion and to answer questions. This informal process provides preliminary information to the public while giving staff responsible for the budget immediate feedback on how the public feels about the budget and ultimately the priorities the city has established. Because this is an informal meeting, public concerns are not be addressed thoroughly; the goal is to know what those concerns are so that they can be considered during future planning. These meetings can be broadcast live on television or radio.

In a similar vein, budget officers can take the budget presentation “on the road” to civic organizations, homeowners associations, and service clubs. Cities can also find creative ways to involve interest groups, political parties, or civic groups and allow for expressions of various opinions. For example, a group can be invited to present its views in a “roundtable discussion” prior to a council meeting.

Exhibit 5-2 presents the public hearing phase (Phase B, Part 2) of the Municipality of Razgrad’s annual budget calendar. The city’s entire budget calendar appears in Chapter 3: Budget Preparation of this manual.

**Exhibit 5-2**  
**Presentation and Discussion of Draft Budget**  
**(Municipality of Razgrad)**

Steps	Goals	Participants	Completion Deadline
Present draft budget to municipal councilors	Justifying the content and process of creating the draft	Deputy Mayor for Finance, standing committees or committee chairpersons	Mid November
Present draft budget to community	To share and discuss the municipality's objectives and how the budget achieves them	Mayor, public boards, non-governmental organizations, etc.	End of November
Adjust draft	To incorporate public and municipal council opinions and recommendations	Mayor, deputy mayors, and city secretary	Mid December
Complete final draft budget	To prepare final version after adoption of annual national budget act	Deputy mayor for finance, finance and accounting administration	Third week of December or within 3 days of national budget act gazetting

The degree of community involvement varies greatly depending on many local factors. Sometimes citizens are not as interested in the process, and opening a forum for involvement remains fairly uncomplicated. At other times, sensitive issues related to tax increases, economic development decisions, or social topics can generate significant interest in the budget. Since these issues may be difficult to anticipate, a regular budget deliberation schedule of about 5 to 7 months is crucial. Exhibit 5-3 presents an example of a budget review and deliberation schedule.

**Exhibit 5-3**  
**Sample Scheduling Sequence**

Months 5-6:	Community process in place to outline issues and the draft priorities
Month 7:	Public hearings on issues and priorities
Month 8:	Municipal council retreat to finalize priorities
Month 7-8:	Citizen commissions and staff prepare draft budgets
Month 9-10:	Mayor proposes budget to council, citizens, commissions, and news media; includes highlights, summary video, budget on city Web site
Month 10-12:	Public hearings, televised work sessions, TV call-in shows, news articles, press round tables, budget information booth at shopping districts, presentations to citizen groups, Internet-based information and chats.
Month 12:	Final public hearings, passage of budget.



## Administration Response

If a government is going to solicit public input, it must be prepared to consider citizen's interests and implement reasonable suggestions. It is important that the municipality have a process for assessing, and considering the information generated from surveys or city meetings. The administration must formally summarize the results of citizen input and make those results public. This not only legitimizes citizen involvement but also creates a public record that can be evaluated over time.

The media can provide an effective interface between the administration and the public. Exhibits 5-4 and 5-5 present suggestions for working with the media.

### Exhibit 5-4 Helping Reporters Learn about Local Government

- ! Provide the information in writing if possible.
- ! Provide an informal orientation for every new reporter assigned to cover the government, by providing:
  - An organization chart of the administration with **names and office phone numbers** of operational heads
  - A list and brief biography of members of the governing board
  - A description of the relationship between the administration and the governing board
  - A brief description of each department's or agency's responsibilities and functions
  - Fact sheets on major programs
- ! Introduce reporters to department heads for informational meetings
- ! Arrange meetings between reporters and the budget director, operational heads, or appropriate person on finances and budgets
- ! Do not assume new reporters are familiar with a program or with local government in general
- ! Approach reporter requests for information or interviews as you would handle such a request from a citizen
- ! Try to state information in a manner the average citizen would understand
- ! For television and radio reporters try to speak in 30-second "sound bites"
- ! Suggest story ideas to reporters, explaining the significance of the story

### Exhibit 5-5

#### Ten Rules that May Help in Working with the Media

- ! Tell the truth.
- ! Have the facts or know where to find them.
- ! Don't think you can handle or manipulate reporters.
- ! Work for understanding rather than persuasion; i.e., fair coverage is a shared goal and information makes the reporter's job easier.
- ! Think before you speak.
  - Are you the right person to be answering this question?
  - Remember that what you say will appear in the papers or on the air.
  - Think twice about going off the record.
- ! Know what makes news.
- ! Know what is involved in the reporting/editing process.
- ! Know what the interviewing techniques are.
- ! Follow the Open Meetings and Public Records laws.
- ! Know how and when to complain about inaccurate reporting.

### ***Guidelines for Budget Presentation<sup>2</sup>***

Although budgetary practices vary considerably among local governments, the same principals generally apply to the production of the budget document. The principal ingredient and guideline for a successful budget document is that it should comprise the following four sections:

- ! **The Policy Overview.** This section of the budget should articulate budget priorities and goals, link past and future budget activities to the present budget, and disclose the assumptions upon which the budgetary decisions and estimates have been made.
- ! **Operating Detail.** This is usually the longest section of the budget, and outlines the operational and spending plans for government agencies and programs. The operating detail should meet three main objectives: show the allocation of resources among departments and programs; establish performance objectives and measures; and report prior-year operating results and accomplishments.

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<sup>2</sup> This section is based on The Best of Governmental Budgeting. A guide to Preparing Budget Documents by Dennis Strachota. 1994. Chicago: Government Finance Officers Association.



- ! **Financial Summaries.** This section summarizes information contained in the operating detail section, through five basic types of summaries: consolidated summaries; revenue summaries and analyses; summaries of current expenditures or expenses; debt summaries; and capital spending summaries.
- ! **Organizational and Community Profiles.** This section describes the internal and external factors that influence a budget: the government's organizational structure and staffing; the government's financial structure and budget process; and the demographic, economic, and cultural features of the community served by the government.

## The Policy Overview

The policy overview section of a budget tells the story behind the numbers by explaining the decisions concerning program, revenue and spending priorities. Most policy overviews contain the following features:

- ! **Transmittal Letter.** This is a one- or two-page letter which formally conveys the budget document to the governing or legislative body. Although this is not essential, it can be used to summarize key budget decisions or serve as an extensive budget message. In a final budget or budget-in-brief the transmittal letter may also explain changes made to the proposed budget document.
- ! **Budget Message.** A budget message can either serve as an executive summary for the document, or be comprehensive and satisfy all the objectives of the policy overview. The best budget message, however, always articulate goals and priorities. They describe fiscal and program strategies that address pressing issues and help a government fulfill its mission.
- ! **Budget Goals and Assumptions.** Even if presented elsewhere in the budget document, budgetary goals and assumptions should still be referenced in the budget message. Goals can be either financial or programmatic in nature, have a short- or long-term focus, and relate to singular programs or to the organization as a whole. The assumptions are the basis for economic and financial projections contained in the document.

## Operating Detail

The operating detail provides information on the agency mission, staffing levels, performance objectives and indicators, expenditure levels, and, possibly, financing sources for each department or program. Standard features of the operating detail include the following:

- ! **Departmental/Program Mission Statement.** A mission statement describes the functions and activities of each department, and some budgets can include mission statements for both departments and their sub-units.
- ! **Performance Objectives and Measures.** Performance objectives should be tied directly to organization-wide goals, and detail what departments and programs expect to accomplish during the budget period. Objectives should be specific, measurable, and sensible. For example, the objective of a patrol program could be to increase the number of calls responded to within five minutes from 60 to 70 percent during the budget year. This can be measured quantitatively by the number of calls responded to within five minutes. For a more detailed discussion on performance indicators (see Chapter 2 *The Elements of Service Based Budgeting*).
- ! **Accomplishments and Status of Objectives.** This information is presented in narrative form and often replaces performance indicators data by providing a progress report on the accomplishments of a particular department or program.
- ! **Financial Data.** The spending detail for departments and programs—ideally for three years—is the major component of the operating detail. Other information that may be included in the operating detail are revenues and other resource data.
- ! **Staffing and Organizational Structure.** Since personnel costs are a major portion of local government expenditures, the operating detail should include the level of authorized staff for departments and programs.



## Financial Summaries

This section summarizes the financial information contained in the operating detail. It may also include information not presented elsewhere in the document. Financial summaries can either be consolidated (gross budget presentation, net budget presentation, and enterprise operation) or one of the following types:

- ! **Revenue and Expenditure Summaries.** These distinguish between different fund types and show greater detail for revenues and expenditures than consolidated summaries.
- ! **Revenue Summaries.** This shows greater details for revenues and other resources. The two most common types of revenue summaries are summaries of total revenues by broad fund category, and summaries of revenues by fund type.
- ! **Revenue Source Analysis.** This describes each major source of revenue, including the income, goods, or services from which it is derived, and restrictions on its use. The analysis must also explain the assumptions underlying the budget's revenue estimates, significant revenue trends, and other factors which may affect the revenue base or collections.
- ! **Expenditure Summaries.** These are consolidated information from the operating detail section, and may use one or more of the following spending classifications: program or service area, department, major object of expenditure, minor object of expenditure, and site (e.g., schools).
- ! **Capital Spending Summaries.** Many local governments have a separate long-range capital improvement plan and budget. However, information on major capital projects in the budget year should also be included in the operating budget. A capital spending summary should include the following information:
  - A brief description of major capital projects authorized in the budget
  - Budgeted appropriations for the capital projects, including sources of financing
  - A brief description of the capital planning and budgeting process and its relationship to the operating budget
  - The estimated fiscal impact of the capital projects on current and future operating budgets

- ! **Debt Summary and Analysis.** Debt has a long-term impact on the budget because it commits current and future funds over the life of a bond issue. Thus financial projections and a narrative analysis of this indebtedness should be provided in the budget.
- ! **Other Financial Summaries.** Other financial summaries that may be included in this section are:
  - Fund balance analysis: a more detailed table showing beginning and ending balances for all major funds
  - Summary of interfund transfers: which shows the origin and destination of transfers between funds
  - Long-range financial projections: projections of revenue, expenditures, and other financial data over several years
  - Summary of tax rates: which shows current or historical tax rates
  - Summary of budget changes: increases or decreases to the proposed budget made by the governing body

### Organizational and Community Profiles

Organizational and community profiles are used to explain internal and external factors that influence the budget. A combination of graphics, statistics, and text can be used to present this section, which should then be updated on an annual or biennial basis. The essential features of an effective profile are as follows:

- ! **Organizational Chart.** This should show sub-units of government (offices, departments), the hierarchy and relationship of sub-units to one another, and lines of control (responsibility and authority). This helps the reader visualize the structure of government, and relationships within it.
- ! **Staffing Summaries.** In addition to the personnel or position counts provided in the operating detail, a summary of staffing levels should be provided to ease interdepartmental comparisons. This should include the number of employees or positions by department for several years. In addition to this, the types of positions and salary range can also be provided.





! **Community Profiles and Statistics.** This profiles the community served by the government, and can include the following categories:

- Brief history of the government or community
- Land area
- Population
- Land use
- Age and racial mix of population
- Major employers
- Unemployment statistics
- Condition of housing stock
- Service statistics

The above information can also be provided through a narrative description as follows:

! **Financial Organization or Structure.** Budgets should identify funds which are included or excluded in the budget. Usually all funds subject to appropriation should be included. Budgets should also explain the basis of budgeting - line item, program, service based, etc.

! **Overview of the Budget Process.** This should describe the process used to prepare, adopt, and implement the operating budget. The budget timetable and key budget participants should also be provided. Finally, the legal basis for the budget, and the process for amending it should also be included.

## The Final Document

The budget document could be one of several volumes, depending on the size and complexity of the proposed budget. Proposed budgets are usually larger, because they contain detailed decision-making information. The final or adopted budget, may be a smaller summary document used to communicate final policies and appropriations. Budget documents have three purposes: to integrate diverse, and sometimes competing, revenue-raising and spending proposals; to encourage debate and thoughtful deliberations over important issues; and to communicate budget decisions in an accurate and

### Budget Presentation

It is common practice to prepare a two-volume budget document. Volume I, the final budget, containing summary information, and Volume II containing all of the detailed information for the budget.

clear manner. The earlier four sections have discussed the substantive sections of the budget. It is also important to now present an easy-to-use, and attractive final document. Special features of the final document include the following:

- I. **Table of Contents and Index.** A table of contents is necessary for all documents greater than 15 pages in length. An index is an alphabetical list of budget topics or terms, and should provide a page number so that the reader can locate topics.
- II. **Glossary.** A glossary of terms is essential for any document that extensively uses technical and financial terms.
- III. **Graphs and Other Visuals.** This stimulates the reader's interest, focuses his or her attention, and leads to a better understanding of budget information.
- IV. **Divider Pages or Tabs.** This makes it easier for readers to find particular sections, and will be handier for those who refer to it often.
- V. **Cover Design.** Budget documents are the most widely disseminated government financial documents. It should therefore be attractively packaged and invite readers to examine its contents.

### ***Budget Adoption***

With the full deliberation by the mayor and municipal council, as well as active input by the public, the city determines its budget priorities and limitations. Final budget adoption (and finalization of local revenues and expenditures responsibilities), however, is largely influenced by the annual State Budget for the Republic of Bulgaria (SBRB) in the following three ways:

- I. **Shared tax Revenues.** Since 1991, the state budget has regulated the extent to which the tax on the incomes of physical persons (i.e., personal income tax) is shared among state and municipal budgets. The ratio of personal income tax for the state government to that for municipalities has been 1:1 (i.e., one-half goes to the state government and one-half is divided among municipalities) and is not expected to change. In general, this revenue accounts for nearly 30 percent of the total municipal budget and for 40 percent of municipal own-source revenues.
- I. **General Purpose and Targeted Subsidies.** The general purpose subsidy should be a simple fund transfer; however, the size of the transfer is often unclear within the SBRB. Once the state budget has been adopted, the general purpose subsidy is transferred to municipalities. The timing of this transfer does not necessarily take into account the cash flow needs of each municipality. For example, in cities where employment is highly seasonal, the transfer of the general



purpose subsidy might occur after peak season, placing an excessive burden on the municipal budget.

Targeted subsidies cover 27 percent of a municipality's capital investment expenses. The time frame for making capital expenditures often is set in contracts with external vendors/service providers. This time frame, however, usually is established before a municipality knows when it will receive the targeted subsidy from the central government. A municipality can establish a cash flow management program (discussed in Chapter 6 of this manual) with the Ministry of Finance to help avoid the above problems.

- !** **Expenditure Priorities.** In 1992, Bulgaria dictated the minimum municipal expenditures for education, health care, and social assistance. In addition, the central government has established relative weights (or priorities) for certain line-item expenditures. Municipalities are required to follow these expenditure priorities when developing their budgets.

### **Adoption of a Municipal Budget**

The standard procedure for drafting and adopting a municipal budget (and mid-year budget adjustments) is set out in Chapter 3 of the Municipal Budgets Act. The main steps of this procedure are as follows:

- Prepare a draft budget after Parliament adopts the annual state budget act
- Submit the draft to the municipal council
- Municipal council committees review the draft
- Subject the draft to a public debate
- Municipal council adopts the final draft budget
- Appropriate revenues and expenditures by quarter and type based on the uniform budget chart of accounts
- Submit the final draft budget to the Chamber of Accounts and the Ministry of Finance for approval

The municipal council has the authority and responsibility to adopt the annual budget. The process and formal voted decision must be transparent and represent the best judgment

of the majority of the council. The final budget must give the mayor and the administration sufficient direction and latitude to meet the needs of the city.

As suggested in above, the final budget must specify budget amounts according to a series of national norms and centralized policies, as indicated in Exhibit 5-6. As long as the municipality meets the national allocation and reporting requirements, it can append its own budget requirements on the process and, to a certain degree, the distribution of resources. An additional local requirement can be the clear statements of service and service delivery from every funded department, enterprises and community groups. In fact funding support can be conditioned on positive cooperation.



### Exhibit 5-6 State Requirements of the Final Municipal Budget

Portion of Budget	Detail Required
Budget revenues	<ul style="list-style-type: none"><li>• Own-source revenues, subsidy from the state budget, and any unspent amounts carried forward.</li><li>• Annex on all types of revenues as described in the uniform chart of accounts</li></ul>
Budget expenses	<ul style="list-style-type: none"><li>• Total amount</li><li>• Annex listing expenses by function</li><li>• Annex listing expenses by group—labor, other expenses, and capital investments</li></ul>
Expenditure for capital investments	<ul style="list-style-type: none"><li>• Annex describing capital expenditures by function, sites and facilities, and sources of financing</li></ul>
Mayoralties* budget	<ul style="list-style-type: none"><li>• Total amount</li><li>• Annex describing the budget by mayoralties, functions, and groups of expenses</li></ul>
Plan accounts of the off-budget resources	<ul style="list-style-type: none"><li>• Annex describing the accounts of the budget units under the uniform budget chart of accounts</li></ul>
Chart of accounts of the off-budget resources	<ul style="list-style-type: none"><li>• Annex describing the account of each individual fund under the UBC</li></ul>
Financial accounts of municipal enterprises	<ul style="list-style-type: none"><li>• Annex describing the account of each individual enterprise</li></ul>
Funds for social welfare and cultural services	<ul style="list-style-type: none"><li>• Size (percent) compared to the funds spent on salaries</li></ul>
Operating costs for school canteen catering	<ul style="list-style-type: none"><li>• Size (percent) compared to the minimum salary for breakfast and for lunch</li></ul>
Food costs for school canteen catering	<ul style="list-style-type: none"><li>• Size (percent) compared to the minimum salary for breakfast and for lunch</li></ul>
Operating costs for dietetic catering	<ul style="list-style-type: none"><li>• Size (percent) compared to actual expenses</li></ul>
Food costs for the baby food centers	<ul style="list-style-type: none"><li>• Size (percent) of the minimum salary per portion</li></ul>
Travel cards for staff employed in the health and educational sector	<ul style="list-style-type: none"><li>• Size (percent) of total cost travel cards for trips to population centers up to, as well as those more than, 10 km away</li></ul>
Travel cards for pensioners using the inner-city public transport	<ul style="list-style-type: none"><li>• Effects (percent) on the municipal budget of lowering the price of the public transport carrier(s), and others</li></ul>
Expenses for celebrations and hosting of guests	<ul style="list-style-type: none"><li>• The limit (in leva) for the municipal council and for staff</li></ul>

## The Notification

Once the budget is adopted, the finance department must provide full notification to all funded departments, enterprises, community groups, and the public at large (see Exhibit 5-7). These groups must know not only the final amount of leva appropriated but also the expectations of service delivery in return for the commitment of the resources. This is particularly important if there are significant differences between the draft budget and the final budget. By including the expectations in the letter of notification, the city provides an implicit contract that it will support the services outlined. It is imperative that the city issue an amended notification letter if any changes in the level of commitment occur.

While the strategy for communicating with the public uses many of the same tools displayed in Exhibit 5-2, informing the funded units is direct and detailed. Operational managers must clearly understand what results are expected and what resources are available to achieve these expected results. The following two examples illustrate the level of detail required:

- ! Primary school 123, in return for the municipal funding of X leva, shall provide Y instruction days and achieve a promotion ratio of 92 percent of all enrolled students.
- ! The Bela Choral Group, in return for a X-leva subsidy, shall provide Y public concerts with a 90 percent level of ticket sales and Z free concerts for the secondary schools holiday program. In addition, all gross receipts shall be reported to the finance department within 7 days of each conference.



**Exhibit 5-7**  
**Sample Notification Letter**

**RAZGRAD MUNICIPALITY**

Our Ref. 1-00-35

Date: March 10, 1998

Meeting in session on March 9, 1998, the Municipal Council adopted the budget of Razgrad Municipality for 1998 by Minutes No. 32 Under Resolution 347.2, in the Example function, the Unit is allocated a budgetary obligational authority to a TOTAL amount of '000 leva; of which:

Paragraph 01 Wages and salaries	'000 leva
Paragraph 02 Social security	'000 leva
Other budget outlays	'000 leva

By **March 12, 1998**, you are requested to present at Room 407 the apportionment of your budget by activities according to a comprehensive budget classification and a quarterly apportionment in thousands of leva, in accordance with the Uniform Budget Classification of revenues and expenditures for 1998, certified by the chief executive officer.

Completion of a Physical Terms Section for each activity by January 1 and December 31, 1998 is mandatory. When apportioning and disbursing budget resources, please comply with the priorities specified in Article 13 (3) of the 1998 National Budget of the Republic of Bulgaria (promulgated in the *Official Gazette* No. 123 of 1997).

The amount of the wage bill is formed on accrual basis from the beginning of the year, proceeding from the number of employees as estimated in the budget and the average wage per person as fixed by the Municipal Council, according to Article 3 (1) of Council of Ministers Decree No.; 14 of 1998, adjusted by the projected wage growth index according to Article 2 (1) of the same Decree.

The rosters of positions and wages should be elaborated in accordance with the requirements of Article 9 (2) of Council of Ministers Decree No. 14 of 1998 and must be presented for endorsement to the Labor and Wages Department of the Municipal Administration by **March 31, 1998**.

The current implementation of your organization's budget must be organized observing the following conditions:

- The resources for welfare and cultural services of the personnel working at municipal public-financed organizations amounts to 3 percent of the wage bill planned and are reported on the basis of the wage bill charged. Disbursement, reporting and utilization of these resources follows the procedure established by Clause 11 of the 1998 National Budget Act and Article 5 of Council of Ministers Decree No. 35 of 1998 on Implementation of the 1998 National Budget Act. Expenditures are shown under Paragraph 12 "Other expenditures."
- Transport costs of commuting health-care personnel are reimbursed, as from March 10, 1998 to the amount of:
  - 50 percent of the price of the season ticket for population centers within 10 km from the city;
  - 85 percent of the price of the season ticket for population centers beyond 10 km from the city.

Expenditures are shown under Paragraph 09 "External Services."

- The municipality secures the public-financed organization's budgetary obligational authority by a grant in accordance with the cash implementation of the revenue side of the municipal budget and in conformity with the restrictive terms of Article 11 (2) of the National Budget Act.
- Financing will be provided according to an approved schedule, upon presentation of a monthly request to the Budget Division.
- At the end of the budget year, acting on your reasoned proposal and by order of the Municipality Mayor, the following transfers may be made within the limits of the total amount:
  - from one activity to another activity;
  - from one paragraph to another paragraph-applicable to material maintenance only.

## **6.0 BUDGET IMPLEMENTATION AND MANAGEMENT**

After the budget is adopted and the decisions are communicated to the various stakeholders, the process enters the final phases of implementation and management. Implementing the budget process involves expenditure planning and reporting, transferring funds among budgeted items, position control, monitoring revenues, and monitoring progress towards service objectives. Cost control, cash flow management, and auditing are tools that assist the budget team in managing ongoing activities. It is not a “command” form of management, because by this stage of the budgeting process there should be shared expectations and a high level of agreement.

### ***Budget Implementation***

Traditionally, the responsibility for budget implementation rests with the finance department. With the expanded budget team involved in SBB however, each department can contribute to implementing the adopted budget. The budget represents a commitment to provide both resources and a certain level of service. It is the joint responsibility of the finance and operating departments to operate within the budget, with the finance department in a lead role. However, achieving budget service levels is the prime responsibility of operating departments. To effectively monitor the implementation of the budget, the budget officer should:

- Work with departments to establish monthly or quarterly spending forecasts and monitor progress against them;
- Report actual expenditures compared to the detailed budget;
- Review and make recommendations to the legislative body on departmental requests to transfer funds among appropriation items;
- Monitor payroll expenditures;
- Monitor progress toward the achievement of service objectives; and
- Initiate procedures necessary to adjust budgets to reflect changes in revenue availability.

Budget implementation also involves an analysis of budget variation. This is the process of determining how much actual financial results depart from planned results. If there is a variance, the finance department should analyze why the variance occurred (often done by comparing planned and actual consumption, planned and actual unit costs of consumption, and other factors which might explain financial variance), and develop an action plan to restore balance between planned and actual financial results by year end. This should be periodically done for both revenues and expenditures,(quarterly or monthly) based on a careful assessment of when costs will be incurred.





**Expenditure Planning and Reporting.** The requests of departments and enterprises often far exceed the financial resources of the municipality. If the municipality prepares management plans, these plans create expectations for the forthcoming fiscal year. After the budget is adopted, therefore, departments and enterprises must adjust management plans to reflect what can realistically be expected with the funds committed.

Quarterly or monthly projections of expenditures are now necessary, and actual expenditures should then be plotted against these estimates. If the spending rate is higher than anticipated in the original management plan, corrected measures should be adopted immediately. This may involve transferring funds from another activity, revising work plans, reducing the service objective, or decreasing expenditures not essential to maintaining the most critical services. An example of a monthly report comparing expenditures made to the detailed budget is shown below (see Exhibit 6-1). The data should be drawn from the local government's accounting system, and the structure of the report should correspond to the budget classification structure used in the budget document.

**Exhibit 6-1**  
**Monthly Budget Report**

<b>Activity Name: Police Services</b>	<b>Budget Expense this Period</b>	<b>Actual Expense this Period</b>	<b>Variance this Period</b>	<b>Budget Expense Year-to-date</b>	<b>Actual Expense Year-to- date</b>	<b>Variance Year-to-date</b>	<b>Amount Unspent Year-to-date</b>
Patrol	343	310	33	750	725	25	775
Community Service.	250	262	(12)	300	310	(10)	290
<b>Total</b>	<b>593</b>	<b>572</b>	<b>21</b>	<b>1,050</b>	<b>1,035</b>	<b>15</b>	<b>1,065</b>

Source: The Operating Budget. A Guide for Smaller Governments. By Juliet Carol Powdar. Chapter 6: Implementing and Monitoring the Budget, 1996. Chicago: Government Finance Officers Association.

**Transferring Funds Among Budgeted Items.** It is important to ensure that funds are spent only as authorized by the appropriation ordinance. Changes in the spending of funds should be submitted and formally reviewed as amendments to the approved budget. These amendments may include:

- Transfers among budgeted items;
- Increases in budgets resulting from the appropriation of additional funds; and
- Decreases in budgets to avoid budget deficits.

There may be several situations which require a budget transfer: (1) a transfer to departmental operating budgets from reserves for emergencies, or from central budgeted accounts for salary adjustments; (2) a transfer from one department or activity to another due to a change in priorities or objectives; and, (3) a transfer within a department or activity to adjust budget estimates to meet actual operating realities. Budget transfers should be in compliance with a budget transfer policy, which should be established and approved by the legislative body.

**Position Control.** Budget control also involves control over payroll expenditures, which usually makes up a very large percentage of a local budget. The most efficient way to exercise control over these expenditures is through a formal position control system which ensures that each permanent employee is hired for a position that has been approved and budgeted. Also, the rate of pay for the position should be approved by the legislative body in accordance with a locality wide pay plan. Position control includes the following steps:

- Establishing a comprehensive list of jobs (positions) for all departments (a position plan);
- Establishing standard rates of pay for all similar jobs or positions (a pay plan);
- Budgeting funds for approved positions;
- Hiring persons into approved positions; and
- Modifying the position and pay plans in an orderly manner.

**Monitoring Revenues.** Along with expenditures, revenues should also be monitored, either on a monthly or quarterly basis, in relation to the budget. Actual revenue should be compared to estimated revenues in the budget for the same period. A revenue shortfall may be due to bills not being collected in a timely manner, or because the state government has delayed the release of grant funds or shared revenues. These problems should be identified and corrected where possible. To monitor revenues, the following procedure could be followed:

- For each revenue source, obtain the actual collections by quarter for the past five years;
- Compute the average percent by quarter and adjust for obvious trends;
- Apply average quarterly percent to annual revenue estimates;
- Adjust estimated quarterly revenue flows for major anticipated deviations; and
- Compare actual revenues to estimated revenues to spot possible problem areas.

**Monitoring Progress Towards Service Objectives.** The objective of monitoring expenditures is not only to enforce fiscal control, but also to ensure that planned work is being



carried out. Data should be collected and evaluated on service delivery and performance. The budget officer should maintain a close contact with department heads and program managers to discuss project problems and progress.

## ***Budget Management***

Budget management consists of three important tools—cost control, cash management and auditing. Cost control is a sound financial management practice that helps to detect and correct overspending; cash management makes certain that enough money is available on time throughout the year to pay for budgeted expenses; and, auditing is essential to check that proposed expenditures comply with the pertinent statutes, appropriations, allotments, and informal understandings with the legislature.

### ***Cost Control***

Municipalities must monitor and control budget expenditures for two main reasons: (1) revenues can fall short of projections, and (2) expenditures can exceed projections. Moreover, leaving budget overruns unchecked over the course of a year greatly exacerbates their negative effects. Since municipalities have somewhat more control over costs than revenues, they should closely monitor expenditures. By containing costs, they can help offset shortfalls in revenue sources.

Allocating funds to sectors and departments on a quarterly basis during the budget year helps to control expenditures. It detects overspending in a timely way and prevents any gaps between estimated and actual costs from widening to the point where correction becomes difficult. Quarterly allocations also foster:

- Department spending within quarterly limits;
- More accurate department planning; and
- Use of quarterly budget projections in the planning phase

Quarterly allocation of the approved budget is a statutory requirement, although it is not always enforced. The local government can choose one of two approaches: (1) sectors and major functional units handle the allocations themselves, or (2) the municipal fiscal authorities and the heads of sectors and functional units jointly conduct the allocation process. The second method helps link municipal funding to service objectives, thus furthering the cause of service-based budgeting. Fiscal authorities can use the “power of the purse strings” to help operational managers focus on serving the citizenry.

To be effective, quarterly allocations must be made in parallel with a cash flow management program (described later) and should be based on analyses of monthly reports measuring actual expenditures against budget projections. The accounting system must be able to generate such reports that utilize existing budget classifications. Reports should contain at least the following information about each expenditure item:

- Amount provided for in the budget;
- Monthly expenditures;
- Expenditures since the beginning of the year;
- Rate of budget implementation (comparison between expenditures made and the budget); and
- Amount of costs not paid.

Examining the rate of budget implementation—that is, comparing budgeted to actual expenditures—must occur periodically and systematically. To ensure consistency among departments, managers and analysts must work together to design the comparative methods. The resulting information helps managers take actions to curb illegal or unjustified overspending. These actions may include:

- Transferring funds from other activities;
- Revising action plans;
- Reviewing service provision targets; and
- Not paying costs irrelevant to the service.

In volatile economic conditions, establishing cost limits may be a preferable form of controlling costs, but not a way of increasing local responsibility. For instance, limiting actual expenditures to 95 percent of the budget protects municipalities against financial problems and imposes stringent control and observance of priorities but it is also very intrusive. Bulgaria first applied this technique in its 1997 State Budget Act, introducing limits of 90 percent and 95 percent of budget-approved expenditure with the remainder allocated if revenues met or exceeded projections. This constituted a form of contingency funding, but would be an anathema to service-based budgeting unless services were also reduced proportionally.



## Cash Flow Management

The ultimate objective of a cash flow management program is to increase municipal revenues by investing funds not required for current operating costs. This can help reduce taxes—less money has to be raised if more is earned by the careful use of cash on hand. Cash flow management is an ambitious task demanding:

- Thorough assessment of the current state of cash flows, including their timing and sources;
- Careful study of cash flow trends on the basis of past experience; and
- Expertise with short-term money markets.

A city's cash flow management program should minimize credit and market risks while maintaining a competitive yield. Information on the average yield of investments and total revenue realized from the program should be included in an annual report.

### # Establishing Relationships with Bankers

In the course of managing cash flow, the city will establish a closer working relationship with local and national bankers. This relationship becomes especially important when starting a major capital development project, issuing municipal bonds, or borrowing on a short-term basis. In developing its ties with the banking community, the financial manager must understand that:

- Banks have finite sources of revenue;
- Banks are in business to make a profit; and
- Banks work in a competitive environment.

Banks earn money from three sources. Banks charge service fees, which do not always cover the related costs. Investing deposits further allows banks to generate funds.

Finally, banks earn revenue by loaning money at interest rates that exceed the bank's cost of funds. Customer deposits and the services provided to customers are liabilities, while the bank's investments, loans, and service fees are its assets. Among the services banks provide are the following:

- Check clearing;
- Record keeping;
- Credit analysis; and
- Labor and facilities costs.

Banks typically manage their assets and liabilities in order to make the highest profit. If banks cannot generate enough revenue from a customer to cover costs and make a reasonable profit, they will prefer not to deal with that customer. The municipality must identify the banks with which it would like to establish a working relationship. If there are no more than one or two banks within the municipality or if the municipal-owned bank is the only facility, the city should expand its choices by considering banks in the nearest large towns. The National Budget Act for 1998 requires the construction of a list of banks authorized to serve municipal budget accounts. This list must be approved by both the Ministry of Finance and the Bulgarian National Bank.

When choosing a bank, the municipality must consider a number of factors, most importantly:

- The specific services offered and their price;
- The bank's size and reputation;
- The ease of access from city offices;
- The adequacy of the branch network to serve municipal entities; and
- Any advantages of using the same bank as the tax authority.

The final choice should occur through competitive bidding, with long-term requirements made clear to the participating banks.



## # Starting a Cash Flow Management Program

**Minimize the Number of Accounts.** The first step in the program is to review each of the city's existing bank accounts to determine which, if any, can be closed. The goal is to keep the number of accounts to a minimum. In reviewing each existing account, the financial manager should determine:

- The reason for its existence;
- Average balance; and
- Source and type of payments to and from the account.

**Accelerate Deposit of Cash Payments.** Once the number of bank accounts is brought to a minimum, the next step is to find ways to deposit cash payments faster. The goal is for funds to be credited to the city's accounts on the same day a taxpayer makes a cash payment. The city should analyze the tax administration's practices and make efforts to convince the tax authorities of the benefits of accelerating the process.

**Establish Payment Procedures and Schedule.** It may be helpful to develop a flow chart of payment procedures to be observed by all heads of departments and services. The more important spending items should be arranged on a preset, regular basis. The wage bill, for example, is budgeted on a monthly or weekly basis. The city should try to introduce some regularity in other payments for services received. Arrangements also should be made for non-recurrent or contingent spending, emphasizing the exceptional nature of such payments. Payments on bills and invoices should be delayed as long as possible within the agreed terms.

**Choose a Time Period.** Once the schedule is made, a time period for the program should be selected. If wages are paid on a monthly basis, the period could be set at 30 days. In this case, all inflow, outflow, and net cash flow projections span a 30-day period. Since wages are the most significant cash payments from a city's budget, choosing a time period that matches wage payment schedules simplifies the program.

**Determine the Number of Cash Flow Periods.** The number of cash flow periods within a year depends on the length of the time period. Since the timing of receipts and outlays do not necessarily match within any single period (even though discrepancies may balance out over several periods), it is recommended that cash flow projections be done on a financial-year basis.

## # Estimating Revenues

Once the preliminary work has been completed to establish the cash flow management program, the city should begin estimating revenues, using a tabular form for projections. The purpose of the exercise is to reach a realistic estimate of specific revenue streams for each time period. In most cases, the city must work with the tax authorities that keep the analytical information. Although the information should be specific to the jurisdiction's taxes, fees, and other revenues, some examples of the data used and actions taken are provided below:

### Individual Taxes

- Number of persons employed in the budget and the economic sector
- Number of persons by income bracket
- Wage payment schedules of the city's main employers
- Application of government resolutions concerning periodic pay indexation
- Employers experiencing problems and the size of outstanding wage payments (e.g., delayed because of financial difficulties)
- Application of national government and municipal resolutions concerning periodic pay indexation
- Amount of current tax payments
- Analysis of annual tax returns
- Projected revenue schedules based on previous year

### Corporate Taxes

- Detailed analytical performance indicators
- Comparison of business plan projections with tax inspection findings
- Privatization developments and statutory tax incentives

### Local Fees and Charges

- Administer the fees over which the city has collection responsibilities
- Identify precisely the points of service provision and the related procedures
- Accelerate cash payments
- Develop clear and coherent rules concerning overpaid or inappropriately paid charges





## Transfers

- Become familiar with the method of allocation under the current National Budget Act
- Analyze the timing and proportion of disbursements in previous years, and adjust current year estimates accordingly
- Reach an agreement with Ministry of Finance on a time interval for disbursements to the local budget account in accordance with the existing project contracts and established Ministry of Finance procedures

## Municipal Bonds Revenue

- Develop separate cash flow management programs for each issuance that account for project-specific revenues and expenditures
- Develop specific investment strategy for each issuance

### # Estimating Expenditures

Many financial managers find estimating expenditures to be rather easy. Again, a tabular form can be used to project expenditures by future period. Such a form would show:

- ! **Wages.** As a rule, the frequency of wage payments determines the cash flow projection period. The financial manager also must consider expected payroll increases or decreases and the inflation rate.
- ! **Withholding Tax on Wages.** Estimates of the amount of withholding tax for each period include the amounts credited to the local budget. This information also should appear in the revenue estimate for the same period and on the same base amount.
- ! **Debt Service.** The financial manager can determine in advance the funds required and due dates for interest and principal payments to bond holders. If a broker is involved, the estimate must be based on any agreed upon due dates.

- ! **Capital Expenditure.** A separate expenditures projection, with reference to specific funding sources, must be prepared for each capital development project. The financial manager cannot base estimates on past projects, as the terms vary from case to case. With the help of the relevant officers, the financial manager must become familiar with the details of each development contract.
- ! **Purchases.** To estimate the amounts spent on purchases (e.g., supplies and equipment), the financial manager may look back to previous periods.
- ! **Outside Services.** Past experience may provide assistance here, but adjustments should be made for price changes and absorption. Typically, all the utility charges are included in this category.

### **Making Investments**

After preparing the expenditure and revenue estimates for the period, the financial manager subtracts total expenditures (outflow) from total revenue (inflow) for the period to determine net cash flow. If inflow exceeds outflow, the city has a positive cash flow; a negative cash flow results from the reverse. The financial manager also must determine the adequacy of the cash flow. If it is an annual projection, it must be compared with the cash flows resulting from the approved city budget for the year. Although the two may not be directly comparable if a different approach has been used to draft the budget, the “bottom lines” should match fairly closely.

A positive net cash flow for a given period may indicate a short-term investment opportunity. The investment maturity must be scheduled so that earnings become available during any projected negative cash flow periods. In most cases, the dates of concern are paydays and the due dates of other large spending items. A simple form can be used to record accrued (i.e., not received) investment revenue by accounting period.



## # The Legal Framework

The legal framework for making investments is detailed in Exhibit 6-2. Given the absence of any special primary legislation and the risk involved in investment activities, the city should make a local enactment rather than rely on the common statutory provisions. The local enactment should feature:

- Definition of the circumstances in which investments would be allowed
- List of appropriate investment instruments
- Investment selection procedure
- Procurement procedure concerning financial services
- Management procedure for the entire investment process
- Objective criteria to ensure the city's financial stability

### Exhibit 6-2

#### The Legal Framework for Making Investments

Local Self-Government and Local Administration Act (LSGLAA):

- Article 21(1.6) defines the city council's budgetary authority
- Article 51(4) provides for the investment of cash surpluses in what is termed "economic activity."

Municipal Budgets Act (MBA) Article 6 (2.5) defines interest income as a local revenue; Article 40(1) says that by resolution of the city council, the municipality may effect any lawful transactions with Bulgarian banks and with other financial institutions.

## # Important Investment Considerations

The municipality must always consider the risk of financial loss in its short-term investment activities. Government securities are usually regarded as an almost zero-risk guaranteed-return investment. A city should avoid high-risk or speculative investments, even when they are legal. For example, cities should avoid investing in corporate securities on the secondary stock market. In some countries, the law prohibits the investment of taxpayer money in stock market instruments.

Once an investment opportunity has been analyzed in terms of legal restrictions and financial risk, the next step is to determine its liquidity. The liquidity of an investment is the degree to which it can readily be transformed into cash without losing principal or interest. An investment portfolio should always contain some highly liquid instruments to ensure that all outlays are made when due, including outlays not included in the cash flow projection. Finally, the municipality should look for the highest return/yield that the investment can produce. One should bear in mind that the various instruments often differ in this respect. Generally, the longer the maturity and the lower the liquidity are, the higher the yield will be.

### # Short-Term Borrowing

Combining investing with short-term borrowing helps ensure an appropriate cash balance at the end of each period. There are situations in which short-term borrowing to cover certain costs is preferable to using available funds earmarked for other purposes. For example, although a city generally should avoid short-term capital development borrowing, it can borrow to bridge the time between when it decides to issue bonds to finance capital development and when it receives the proceeds from the offering. (Capital projects generally should be funded from accumulated revenues, special government subsidies, or long-term municipal bonds.) In addition, tax revenue fluctuations during the financial year may result in negative cash flows for certain months. Funds from short-term borrowing may finance such cash shortfalls.

### # Audit Chamber Comments

The Audit Chamber conducts an annual review of the financial practices of municipalities and delivers its findings on violations of legislation. Exhibit 6-3 gives an overview of the Audit Chamber's functions. Similar independent institutions that present unbiased opinions of municipal funds management have been established in all developed countries. The Audit Chamber's statement carries much weight. Municipalities are likely to include favorable statements in their budgets, while those with negative statements must undertake serious corrective action. It is a good practice for the mayor to present Audit Chamber statements, along with any corrective steps taken to rectify problems, to the municipal council and the public.

Municipal financial audits are conducted in accordance with certain generally accepted standards. These

#### The 1997 Audit for Razgrad

The 1997 Audit for Razgrad stated that certain violations are reoccurring, that all rental revenues are not collected, and that other examples of control and contract administration should be more tightly handled. The audit provides another set of financial control issues that could be incorporated into the organization of revised budgetary process and fiscal control policies. What is required is a clearer definition of role of and a broader participation by management for all units that receive municipal budget support.



standards provide reasonable assurance to the public that a municipality's financial statements are free of misstatement. An audit also includes examination of evidence supporting the amounts and disclosures in the financial statements, accounting principles used, and significant estimates made by management in developing financial documents. Auditors may choose to perform additional analyses of more specialized documentation, such as individual fund statements and schedules.

### Exhibit 6-3 The Audit Chamber

#### Legal Framework

The Audit Chamber Act, the Municipal Budgets Act, the State Budget Structure Act

#### Essence and Functions

By law, the Audit Chamber monitors:

- The implementation of municipal budgets in conformity with the law and targets
- The utilization of the budget funds granted to individuals performing economic or non-economic activities
- The operational reporting of the budget revenues and expenditures, reporting of cash implementation, and drafting and submission of quarterly and annual accounting reports
- The fulfillment of the extra-budgetary accounts
- The revenues and expenditures of the nonprofit legal entities and funds established with budget means or guaranteed by the state
- The privatization revenues of the respective funds, as well as their distribution and spending
- The management of the property granted to budget organizations.

In practice, the Audit Chamber performs additional useful functions:

- Advising municipalities facing public finance problems
- Disseminating municipal experience
- Using its experience to prevent violations and correction of ineffective decisions
- Generalizing typical and recurring findings, sometimes encouraging amendments in the legislation
- Motivating for quality work at all levels of local government.

#### Control Functions

The Audit Chamber implements its activities through audits assigned by order of the President of the Audit Chamber. The findings, supported by evidence, are presented in a statement. The individuals who have been subjected to audits may present explanations within 14 days of the date of the submission of the statement. A conclusion is drafted that becomes an integral part of the statement.

The statement of findings is submitted to the Audit Chamber and approved by decision.

The President of the Audit Chamber submits to the Minister of Finance and the municipalities a report on the findings from the audits with proposals for elimination of the established violations, as well as analysis of the reasons and conditions that have brought about these violations. The 1998 report appears in this appendix.

The municipalities are obliged to undertake correction measures within 1 month and inform the Audit Chamber about these steps.

## **APPENDICES**

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# APPENDIX A

## NATIONAL BUDGET PROCEDURES ACT

**Passed by the 37th National Assembly on July 25, 1996. Promulgated in the *Official Gazette* No.67 of August 6, 1996 by Presidential Decree No.270 dated July 25, 1996. Amended and Supplemented by the Bulgarian National Bank Act, passed on June 5, 1997 and effective as promulgated in the *Official Gazette* No.46 of June 10, 1997 by Presidential Decree No.215 dated June 9, 1997.**

## Chapter One

### GENERAL PROVISIONS

**Article 1. (1)** This Act regulates the preparation, adoption, implementation of, and accounting for, the national budget of the Republic of Bulgaria.

**(2)** Apart from the budget process, this Act furthermore regulates the relationships between the national budget and the municipal budgets, as well as the treatment of off-budget resources.

**Article 2. (1)** The national budget shall encompass the receipts and outlays of the State.

**(2)** There shall be tax and non-tax receipts of the State, and the said receipts shall be raised from natural persons and legal entities according to a procedure established by statute.

**(3)** The tax receipts shall be determined in virtue of the tax laws effective as of the date of entry into force of the annual national budget act.

**(4)** No provisions shall be made for any revision of taxes in all elements of the taxation regulation introduced after the time limit under Paragraph (3) to enter into force earlier than the effective national budget act is amended or the national budget act for the succeeding budget year enters into force.

**(5)** The provisions of any statutes, which provide for an increase in outlays or for a decrease in receipts after passage of the annual national budget act, shall enter into force not earlier than the said act has been amended or the national budget act for the succeeding year has entered into force.

**(6)** The national budget shall include outlays on maintenance of the state administration, defense and security, the judiciary, education, health care, culture, science, public welfare and other expenditures, including such for the economic sphere, as well as for payments on the internal and external public debt.

**(7)** Receipts and outlays shall be grouped according to a uniform budget classification which shall be endorsed by the Minister of Finance.

**(8)** Receipts shall not be for specified purposes and shall serve to offset outlays.

**Article 3. (1)** When the budget balance is calculated, the resources which represent a variation in the indebtedness of the Treasury and in the amount of cash resources thereof shall be excluded from the receipts and outlays.

**(2)** The national budget deficit shall be covered by proceeds from the issuance of government securities and other operations on the financial market.

**(3)** The national budget surplus shall be utilized to repay debts or shall be transferred to reserves for undeferrable contingencies.

**(4)** By statute, the national budget deficit may furthermore be covered by a bank loan.

**(5)** (*Added, Official Gazette No.46/1997*) The Bulgarian National Bank may extend credit to the national budget on terms and according to a procedure established by the Bulgarian National Bank Act.

**Article 4. (1)** The national budget shall encompass the executive budget and the judiciary budget.

**(2)** The executive budget shall consist of a central government budget and of the budgets of the state bodies.

**Article 5.** The central government budget shall include the executive receipts raised and outlays committed by the Council of Ministers directly or through powers thereby delegated to the Minister of Finance.

**Article 6. (1)** The bodies which administer the national budget receipts shall be all state bodies and public-financed organizations which have been entrusted with the raising of and accounting for budget receipts by a statute or an act of the Council of Ministers.

**(2)** Budgetary obligational authority shall be granted by the Council of Ministers, and the grantees shall be classified as primary and secondary.



(3) The grantees of budgetary obligational authority of a lower rank shall be designated by the Minister of Finance, where so regulated by statute.

**Article 7. (1)** The budgets of the state bodies and the public-financed organizations shall include all receipts from and outlays on the operation thereof.

(2) The budgets of the state bodies and the public-financed organizations shall consist of the separate budgets of the primary grantees of budgetary obligational authority and the budgetary accounts of the secondary and lower-ranked grantees of budgetary obligational authority.

(3) The Minister of Finance, acting on motion by the competent primary grantee, may allow specified secondary grantees to prepare a budget instead of a budgetary account.

**Article 8. (1)** The judiciary budget shall include all receipts from the operation of the judicial authorities and the outlays on the maintenance thereof.

(2) The judiciary budget shall consist of the separate budget of the Supreme Judicial Council and the budgetary accounts of the judicial authorities.

**Article 9.** The receipts and outlays on the budgets of the state bodies, the public-financed organizations and the judiciary and the relationship thereof with the central government budget, subsidies or contributions shall be regulated by the annual national budget act.

**Article 10. (1)** The national budget shall authorize and allocate the cash resources required for performance of the state functions and assignments, applying the principles of lawfulness, expediency, economy and publicity.

(2) The Council of Ministers shall introduce before the National Assembly a motion to amend the national budget wherever variances affecting adversely the receipts and outlays by increasing the budget deficit from the level provided for by the annual national budget act are likely to emerge during the [relevant] budget year.

**Article 11. (1)** The executive budget and the judiciary budget shall provide for a reserve for undeferrable contingencies.

(2) The amount of the reserve on the executive budget and on the judiciary budget shall be determined by the annual national budget act.

(3) The reserve on the executive budget shall be resorted to by a decision of the Council of Ministers.

(4) The reserve on the judiciary budget shall be resorted to by a decision of the Supreme Judicial Council.

**Article 12. (1)** A national budget shall be prepared and implemented for each one budget year.

(2) The implementation of the national budget shall commence on the 1st day of January and shall be completed on the 31st day of December.

**Article 13.** The Council of Ministers shall establish the procedure and manner for preparation and introduction before the National Assembly for endorsement of a wartime budget of the Republic of Bulgaria.

## **Chapter Two**

### **NATIONAL BUDGET PREPARATION**

**Article 14. (1)** The Ministry of Finance shall prepare a budget projection proceeding from economic elaboration's and analyses made thereby and by other institutions of the behavior of the gross domestic product, the prices, the revenues, the credit policy and foreign-exchange policy and the main financial results of the operation of the state-owned, municipal and private economic entities.

(2) The budget projection shall represent a provisional estimate of the planned parameters of the national budget for the succeeding three years, which shall be updated annually and shall be approved by the Council of Ministers.

**Article 15. (1)** The Minister of Finance, proceeding from the budget projection, shall prepare and circulate to the state bodies a budget manual for preparation of their draft annual budgets and shall set time limits for submission of the said drafts.

(2) Simultaneously with the preparation of the drafts of the annual budgets of the state bodies and independently of them, the Ministry of Finance shall prepare a draft of the national budget.

**Article 16. (1)** The National Audit Office and the Supreme Judicial Council shall prepare drafts of their respective budgets, which shall be submitted to the Ministry of Finance for inclusion as part of the draft of the national budget.

**(2)** The Ministry of Finance shall examine the drafts as submitted according to the procedure established by Paragraph (1) and shall notify the state bodies in writing of its view on the said drafts.

**Article 17. (1)** The National Assembly, the President [of the Republic], the Council of Ministers, the Constitutional Court, the ministries and the other departments, the regional administrations and the other public-financed organizations shall present to the Minister of Finance, within a time limit thereby set, the drafts of the budgets thereof, enclosing a report and estimates specifying the amount of the separate receipt and outlay items.

**(2)** The Ministry of Finance shall prepare a draft budget for any state body covered under Paragraph (1) where the said body has failed to present a draft thereof within the time limit thereto set.

**(3)** The Ministry of Finance shall analyze the drafts as submitted, shall verify the expediency of the planned receipts and outlays and the substantiation thereof, and shall conduct a dialogue with the state bodies and public-financed organizations.

**Article 18.** Any differences over the drafts of the budgets between the Ministry of Finance and the primary grantees of budgetary obligational authority shall be resolved by the Council of Ministers.

**Article 19.** The Minister of Finance shall prepare a final draft of the national budget and shall introduce the said draft before the Council of Ministers together with a reasoned report.

**Article 20. (1)** The Council of Ministers shall consider the draft of the national budget and, if necessary, shall make revisions therein.

**(2)** The Council of Ministers shall have no right to make revisions in the draft budgets of the judiciary and of the National Audit Office and shall introduce the said draft budgets before the National Assembly on an "as is" basis.

**(3)** The Council of Ministers may evaluate the draft budgets of the state bodies covered under Paragraph (2) and may work out observations thereon, including the said observations into the general parameters of the draft of a national budget which the Council of Ministers submits to the Council of Ministers.

**(4)** The draft of a national budget shall be accompanied by consolidated estimates, including supplementary information on the financial position of the municipalities and on the off-budget resources.

**(5)** The Council of Ministers shall introduce the draft of a national budget before the National Assembly not later than two months before the commencement of the [relevant] budget year.

**(6)** Should the national budget be not introduced within the time limit required for passage thereof before the commencement of the [relevant] budget year, the Council of Ministers shall present reasoning for the delay and shall request permission from the National Assembly for extension of the time limit.

### **Chapter Three**

#### **NATIONAL BUDGET ADOPTION**

**Article 21. (1)** The national budget bill shall be debated according to the procedure established by the Rules of Procedure of the National Assembly.

**(2)** Upon consideration of the bill, the standing committee in charge of the budget shall consolidate the observations of the [other] standing committees of the National Assembly and the motions of the national representatives and shall pass on the said observations and motions without revising the balance of receipts and outlays as moved.

**(3)** Upon request of the standing committees of the National Assembly, the ministries, departments and other state bodies shall furnish supplementary fact sheets and explanations on receipts and outlays.

**Article 22. (1)** The National Assembly shall hear a report of the Council of Ministers, presented by the Minister of Finance, and a report of the standing committee in charge of the budget, whereupon the National Assembly shall debate the draft of an annual national budget act.

**(2)** The national budget act shall be passed by constituent budgets including receipts and outlays thereof by main type, an executive budget balance and executive budget balance financing, total amounts of receipts and outlays of the budgets of the state bodies and the relationships of the said budgets with the central government budget, the relationship of the national budget with the municipal budgets, and the relationships with the off-budget funds.

**Article 23. (1)** The Council of Ministers shall adopt a decree on the implementation of the national budget within one

month after the promulgation of the annual national budget act.

(2) Any such decree shall particularize the amounts and material items of the budgets of the state bodies and the public-financed organizations.

(3) The primary grantees of budgetary obligational authority shall allot the budgets thereof, as approved by the National Assembly and as particularized by the Council of Ministers, according to a comprehensive budget classification and in quarterly terms, and shall endorse the budgetary accounts of the secondary grantees of budgetary obligational authority.

(4) The Supreme Judicial Council shall allot the budget thereof according to a comprehensive budget classification and in quarterly terms and shall endorse the budgetary accounts of the judicial authorities.

**Article 24.** The primary grantees of budgetary obligational authority shall present the budgets thereof to the Ministry of Finance within one month after the promulgation of the decree on implementation of the national budget.

**Article 25.** The Ministry of Finance shall pass on the lawfulness and the quarterly allotment of the budgets as prepared by the state bodies and the public-financed organizations, and shall obligate the said bodies and organizations to eliminate the violations, if any, within a time limit set by the Ministry of Finance.

**Article 26. (1)** Should any national budget be not adopted by the National Assembly until the commencement of the [relevant] budget year, the receipts on the budget shall be collected in conformity with the effective laws, and the outlays shall be committed in amounts not exceeding the amount of outlays for the same period of the preceding year, and with consideration for effective statutory acts of the National Assembly and the Council of Ministers which provide for additional or reduced budget resources.

(2) Should the receipts be insufficient to defray the outlays, the Council of Ministers may obtain monthly public credit, *inter alia* through issues of government securities, to an amount not exceeding one half of the average monthly amount of such credit which was available during the preceding year.

(3) Temporary cash gaps as may occur during the period under review may be financed, *inter alia*, by short-term credit (advances) from the Bulgarian National Bank, extended according to a procedure established by the Bulgarian National Bank Act.

(4) The provision of Paragraph (1) may not be applied for more than three months.

(5) Where the national budget has not been adopted within the time limit under Paragraph (4), the National Assembly shall set an extended time for collection of receipts and commitment of outlays.

**Article 27. (1)** The Council of Ministers may be mandated by the National Assembly to conclude agreements on the conduct of specified activities whereof the payment shall be effected in whole or in part during the succeeding years, in connection with the implementation of programs approved by the Council of Ministers.

(2) A motion to the National Assembly for extension of such a mandate shall be moved by the Council of Ministers by the draft of the annual budget.

(3) Any annual national budget shall include the portion of the outlays under agreements concluded by the Council of Ministers which shall be payable during the relevant budget year.

(4) Any obligations for future periods, which presume an increase of the public debt, may be incurred solely by statute.

## **Chapter Four**

### **NATIONAL BUDGET IMPLEMENTATION**

**Article 28. (1)** The Council of Ministers shall organize the implementation of the executive budget through the Ministry of Finance and the state bodies which are primary grantees of budgetary obligational authority.

(2) The Supreme Judicial Council shall organize the implementation of the judiciary budget through the Supreme Court of Cassation, the Supreme Administrative Court, the law courts, the Prosecutor General's Office, and the National Investigative Service.

**Article 29. (1)** The national budget shall be implemented on a cash basis.

(2) The cash implementation of the national budget shall be organized and effected by the Bulgarian National Bank according to a procedure established by the Bulgarian National Bank Act.

(3) The cash implementation of the national budget, *inter alia* the storage of cash resources and valuables, shall be effected gratuitously, observing the sequence of payments to the budget as set by statute.

(4) The Minister of Finance and the Governor of the Bulgarian National Bank shall issue an ordinance on the cash implementation of the national budget, the municipal budgets and the funds and off-budget accounts.

**Article 30.** The bank secrecy regulations shall not apply to the operations and cash balances on the bank accounts held by primary grantees of budgetary obligational authority, where the Minister of Finance shall require information thereon.

**Article 31. (1)** The Ministry of Finance shall periodically apportion and allot the receipts received in compliance with the quarterly apportionment of receipts.

(2) Outlays shall be committed up to the amount of receipts received on the bank accounts of the executive budget and [of] the grantees of budgetary obligational authority.

**Article 32.** *(Repealed, Official Gazette No.46/1997).\**

**Article 33. (1)** Should any temporary cash gaps occur in the executive budget or in the budgets of the grantees of budgetary obligational authority, the Ministry of Finance may extend or incur short-term loans for the account of disposable budget and off-budget resources.

(2) Any loan under Paragraph (1) shall be extended for a period of up to three months which may not expire after the end of the [relevant] budget year.

**Article 34. (1)** The Minister of Finance, in implementation of a statutory instrument, may transfer obligational authority from one budget to another, provided that the balance of the national budget is not distorted.

(2) The Minister of Finance, on reciprocal motion by the primary grantees of budgetary obligational authority, may transfer obligational authority from one budget to another without altering the amount and the intended purpose of the said obligational authority.

(3) The Minister of Finance, on motion by the primary grantees of budgetary obligational authority, may give consent to internal offsetting alterations in the obligational authority between the elements of the budget classification on the budgets of the said grantees.

(4) The primary grantees of budgetary obligational authority shall adjust the budgetary accounts of the secondary grantees of budgetary obligational authority within the alterations covered under Paragraphs (1) to (3).

(5) Any primary grantee of budgetary obligational authority may alter the obligational authority between the budgetary accounts of the secondary grantees of budgetary obligational authority, provided that this does not alter the parameters of the approved budget of the said primary grantee.

**Article 35. (1)** The Council of Ministers may approve supplemental budgetary obligational authority requiring disbursements from the reserve in the event of undeferrable contingencies.

(2) The Minister of Finance may grant supplemental obligational authority, where offset by a surplus of revenues from own sources and by newly identified sources of revenue, without affecting adversely the balance of the national budget.

(3) The Supreme Judicial Council may approve supplemental budgetary obligational authority requiring disbursements from the reserve of the judiciary budget in the event of undeferrable contingencies.

**Article 36. (1)** Commitment of outlays or incurrence of obligations, which affect adversely the balance of the budget, shall be inadmissible save in the instances where the National Assembly, acting on motion by the Council of Ministers, has enacted the relevant amendments to the annual national budget act.

(2) The inception of programs or projects requiring budgetary obligational authority, which are not included in the annual national budget act, shall be inadmissible save in the instances where the conditions of Article 27 herein are fulfilled.

(3) The Council of Ministers shall not consider any proposals for granting supplemental budgetary obligational authority unless the Minister of Finance has submitted observations in writing on the said proposals.

**Article 37. (1)** The National Audit Office shall exercise control over the implementation of the national budget in accordance with the National Audit Office Act.

(2) The National Assembly, the Council of Ministers, the Minister of Finance, the heads of the ministries and the other departments and the authorities of the tax administration and the customs administration shall exercise control over the implementation of the national budget within the respective competencies thereof.

**Article 38.** The Minister of Finance may discontinue the transfer of subsidies provided by the annual national budget act, as well as block the accounts of public-financed organizations in the event of non-compliance with the provisions of effective legislation or upon ascertained violations of financial discipline.

## **Chapter Five**

### **ADOPTION OF NATIONAL BUDGET REPORT**

**Article 39. (1)** The implementation of the national budget shall be completed on the 31st day of December.

**(2)** The Minister of Finance and the Governor of the Bulgarian National Bank or persons thereby authorized shall establish a procedure for balancing of the bank accounts, including the cash balances thereon, held by the grantees of budgetary obligational authority.

**(3)** The closing date for balancing off of the national budget shall be the 31st day of January in the succeeding budget year.

**(4)** Any obligations incurred as payable within any given budget year must be liquidated by the respective grantees of obligational authority by the 31st day of December.

**(5)** Any obligations under effective court decisions, unprovided for in the respective budget for any current year, shall be mandatorily paid by the succeeding budget.

**Article 40. (1)** The primary grantees of budgetary obligational authority shall compile periodical and annual reports on the cash implementation of the budgets thereof according to a comprehensive budget classification, consolidating the reports of the secondary grantees of budgetary obligational authority.

**(2)** The Ministry of Finance shall compile a report on the implementation of the national budget according to a comprehensive budget classification proceeding from the reports on the central government budget and the judiciary budget and from the reports of the primary grantees of budgetary obligational authority, as certified by the National Audit Office.

**(3)** The Ministry of Finance, in coordination with the National Audit Office, shall establish a procedure and time limits for compilation and presentation of the reports covered under Paragraphs (1) and (2).

**Article 41. (1)** The annual report on the implementation of the national budget shall be considered by the Council of Ministers and shall be introduced before the National Assembly, presented by the indicators according to which the said national budget has been adopted for the relevant year.

**(2)** The standing committee in charge of the budget, in coordination with the other standing committees of the National Assembly, shall consider the report on the implementation of the national budget and shall issue a conclusion thereon.

**(3)** The National Audit Office shall report to the National Assembly on the report on the implementation of the national budget.

**(4)** The National Assembly shall adopt the report on implementation of the national budget by resolution not later than the end of the succeeding budget year.

## **Chapter Six**

### **NATIONAL BUDGET AND MUNICIPAL BUDGETS**

**Article 42. (1)** The national budget shall provide for resources for financial assistance to the municipalities.

**(2)** Any resources under Paragraph (1) shall be provided in the form of general subsidies on the basis of objective eligibility criteria, and ad hoc subsidies and subventions may be resorted to in specified cases.

**(3)** The State may furthermore assist municipalities through authorization to retain public revenues.

**(4)** The amount of resources required for financial assistance to the municipalities, the form of allocation and the procedure for retention of public revenues shall be established by the annual national budget act.

**Article 43. (1)** In the event of a temporary shortage of resources on the municipal budgets, interest-free loans may be disbursed from the national budget, which shall be repaid not later than the end of the budget year according to a procedure and within time limits established by the Minister of Finance.

**(2)** No loan disbursed from the national budget for the municipal budgets under Paragraph (1) may exceed the amount of receipts received from own sources during the month preceding the month of disbursement.

**(3)** On any overdue loans disbursed from the national budget, the municipalities shall be charged interest according to the Interest on Taxes, Fees and Other Such Government Claims Act.

**Article 44. (1)** The municipalities shall make contributions from the budgets thereof to the national budget according to a procedure established by statute.

**(2)** The municipalities shall restore to the national budget any unutilized resources provided in ad hoc public subsidies or subventions.

**(3)** Extraordinary income and savings realized in the process of implementation of the municipal budgets shall not be creditable to the national budget.

**(4)** Any resources under Paragraph (3) shall be utilized by resolution of the municipal councils.

## **Chapter Seven**

### **OFF-BUDGET RESOURCES**

**Article 45. (1)** Off-budget resources shall include all resources which are raised and expended in virtue of statute by the state bodies and the public-financed organizations without being included in the national budget.

**(2)** Any donations, assistance, as well as the resources received under international programs and agreements, shall be expended and accounted for according to the procedure applicable to off-budget resources, unless creditable to the national budget.

**(3)** Conventional budget receipts shall not be treated as off-budget resources, save as otherwise provided by statute.

**Article 46.** The Council of Ministers may determine that the operation of recreational facilities, publications, subsidiary farms and other such ancillary activities of public-financed organizations be financed and accounted for according to the procedure applicable to off-budget resources.

**Article 47. (1)** Off-budget resources shall be raised and expended through funds and off-budget accounts with a credit and debit sides, which shall be prepared in accordance with the uniform budget classification.

**(2)** Each fund shall be endorsed by the Council of Ministers on motion by the competent primary grantee coordinated with the Minister of Finance, save as where the statute on the establishment of the said fund provides otherwise.

**(3)** The off-budget accounts within the scope of the executive budget shall be endorsed by the Minister of Finance on motion by the competent primary grantee.

**Article 48.** The operations on cash implementation of funds and off-budget accounts shall follow the procedure established by Article 29 herein.

**Article 49. (1)** The reports on the off-budget accounts and funds shall be compiled and submitted together with the reports on the implementation of the respective budgets and budgetary accounts.

**(2)** The reports on the off-budget accounts and funds shall be certifiable by the National Audit Office according to the procedure established for certification of the reports on the implementation of the budgets of state bodies.

**(3)** Any reports covered under Paragraph (1) shall be submitted by the Minister of Finance to the Council of Ministers, who shall consider the said reports and shall introduce them before the National Assembly together with the report on the national budget.

**Article 50.** The collection, utilization and accounting for of resources in bond by the state bodies and the public-financed organizations shall follow a procedure established by the Minister of Finance and the Governor of the Bulgarian National Bank.

**Article 51.** The control over the off-budget resources shall be exercised by the authorities and according to the established procedure applicable to the national budget.

## **SUPPLEMENTARY PROVISIONS**

**Clause 1.** For the purposes of this Act:

**1.** "State bodies" are the National Assembly, the President [of the Republic], the Council of Ministers, the ministries and the other departments, the regional administrations, the Constitutional Court and other public-financed organizations defined as such by statute.

**2.** "Budget receipts" are the cash revenues anticipated and received in the national budget in pursuance of statutory instruments.

**3.** "Administration of receipts" means an activity to collect and account for the receipts in the national budget.

4. "Budget outlays" are the cash expenditures appropriated and disbursed from the national budget according to the laws of the land.

5. "Budgetary obligational authority" is the amount voted within the limits of the budget which entitles the grantee to commit an outlay.

6. "Budget subsidy" is the amount provided gratuitously from the national budget for a general or specified purpose.

7. "Budget subvention" is the amount provided gratuitously from the national budget under a specified condition.

8. "Budgetary account" is an entity at financial law regulating the outlays which a public-financed entity may effect during a budget year.

9. "Variation in the indebtedness of the budget" is the drawing and repayment of loans from internal and external sources.

10. "Variation in the amount of cash resources of the budget" is the increase or reduction of the bank balances of the State.

11. "Fund" is an entity at financial law regulating the off-budget receipts and outlays of the state bodies and the public-financed organizations and the relationships thereof with the national budget in connection with tasks of national character.

12. "Off-budget account" is an entity at financial law regulating the off-budget receipts and outlays whereof the state bodies and the public-financed organizations may dispose for the relevant budget year within the respective competencies thereof.

13. "Resources in bond" are common bails, deposits securing temporary importation, bid security for admission to entry in auctions and other such resources held in temporary custody by a state body or a public-financed organization for the account of other persons.

**Clause 2.** The provisions of this Act may be amended, supplemented or superseded solely by a new national budget process act or by an express act to amend and supplement this Act.

## **TRANSITIONAL AND FINAL PROVISIONS**

**Clause 3.** The National Budget Preparation and Implementation Act (promulgated in *Transactions of the Presidium of the National Assembly* No.91 of 1960; amended and supplemented in the *Official Gazette* No.99 of 1963, No.36 of 1979, No.27 of 1992 and No.104 of 1995) is hereby superseded.

**Clause 4.** The preparation, adoption and implementation of the national budget of the Republic of Bulgaria and of the off-budget funds and accounts for 1996 and the accounting for the national budgets for the period commencing in 1992 and ending in 1996 shall follow the procedure established by the National Budget Preparation and Implementation Act.

**Clause 5.** Until passage of a statute regulating the organization of the budget of the Council on Mutual Insurance of Members of Producer's Cooperatives, the said budget shall be subsumed under the national budget and shall constitute a self-contained part thereof.

**Clause 6.** Municipal budgeting shall be regulated by a separate statute.

**Clause 7.** The implementation of this Act shall be entrusted to the Council of Ministers, which shall issue Implementing Regulations therefor.

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**\*Repealed text of Article 32:** "In the event of temporary cash gaps during any budget year, the Bulgarian National Bank may extend to the national budget short-term credit (advance) according to a procedure established by the Bulgarian National Bank Act."

## APPENDIX B

### STATE BUDGET OF THE REPUBLIC OF BULGARIA FOR 1998 ACT

*Promulgated, State Gazette No.123/ 22. 12. 1997  
In force since 1. 01. 1998*

Article 1. (1) Adopts hereby the revenues and aid under the state budget for 1998 to the total amount of 3 558 945,3 million Leva, as follows:

Indices	Amount (million Leva)
1	2
I. REVENUES AND AID	3558945,3
1. Revenues	3558739,5
1.1. Current Revenues	3558382,8
1.1.1. Tax Revenues	3338051,5
1.1.1.1. Profit Taxes	310994,9
1.1.1.1.1. Profit Tax	304879,9
From non-financial enterprises	201469,6
From financial Institutions	103410,3
1.1.1.1.2. Tax on dividends and income	6115,0
1.1.1.2. Tax on income of natural persons	500015,6
1.1.1.3. Value Added Tax	1622200,0
1.1.1.4. Excise duties	500680,0
1.1.1.5. Duties and customs charges	401500,0
1.1.1.6. Other taxes	2661,0
1.1.2. Non-tax revenues	220331,3
1.1.2.1. Current revenues and proceeds from property	78008,0
proceeds from lease of property	8231,5
proceeds from lease of land	2013,4
proceeds from enterprises as transformed government debt	2000,0
net revenues from rendering of services, sales of	
goods and production	60282,4
revenues from interest	5480,7
including:	
from current bank accounts	2760,7
from loans extended in the country and abroad	2720,0
1.1.2.2. State fees	71147,1
Fines and administrative penalties, confiscated funds and proceeds	20204,7
from sales of confiscated articles	80,0
fines, sanctions, penalties, penalty interest, indemnities and deficits	20124,7
1.1.2.4. Other non-tax revenues	50971,5
1.2. Revenues from sales of state property	356,7
proceeds from sales of long-term tangible assets	336,5
proceeds from sales of non-tangible assets and concessions	20,2
2. Aid	205,8
donations, aid and other grants from this country	198,9
donations, aid and other grants from abroad	6,9



Adopts hereby the expenditures under the state budget for 1998 to the total amount of 4 169 771,2 million Leva as follows:

Indices	Amount (million Leva)
1	2
II. EXPENDITURE	4169771,2
1. Current expenditure	2870015,3
1.1. Wages and salaries to staff under employment contracts	298688,4
1.2. Other remuneration and payments to staff	10440,7
1.3. Social security contributions	96708,7
1.4. Scholarships	5972,7
1.5. Support	506048,9
1.5.1. Food	28739,0
1.5.2. Medicines	80894,2
1.5.3. Bedding and clothing	5451,9
1.5.4. Business travel	12347,0
1.5.5. Materials, fuel and power	70547,3
1.5.6. External services	23811,7
1.5.7. Current repairs	13376,8
including:	
for share of municipalities in joint construction, reconstruction, repair and maintenance of the fourth-grade national road network	5453,7
for overhaul of Asparouch bridge, Varna	600,0
1.5.8. Educational and research expenditure and books for libraries	3781,5
1.5.9. Other expenditure	267099,5
including:	
for small-sized water-supply projects	2400,0
1.6. Defense and security	794213,9
including:	
for financing the plan for organizational building and restructuring of the Bulgarian army	25557,0
1.7. Subsidies to non-financial enterprises	123197,8
for current operations	103679,8
other subsidies and payments	19518,0
1.8. Subsidies for current operations of non-profit organizations	1830,8
Membership dues and participation in non-commercial organizations and operations	18934,3
1.10. Total interest	1001746,7
1.10.1. Interest on foreign debt	650650,0
to the London Club	491040,0
on debt bonds	25200,0
to the Paris Club	108720,0
to international financial institutions	25690,0
1.10.2. Interest on domestic debt	351096,7
including:	
on debt bonds	45166,6
on treasury bonds	111856,8
on loans from the Bulgarian National Bank	87386,2
on debt converted into securities	2,3
on loans from the State Savings Bank	78,7
on company debt under Council of Ministers Decree 244 of 1991	365,2

on company debt under Council of Ministers Decree 234 of 1992

203,0

on company debt under Council of Ministers Decree 3 of 1994	186,3
on ZUNK bonds	95199,5

1	2
on debt bonds under CMD ? 89 of 1995 , as amended by CMD ? 106 of 1995 pursuant to § 16 of the transitional and concluding provisions of the 1995 State Budget Act	2223,5  238,7
on debt under CMD? 145 of 1997	7863,9
on state loans	326,0
1.11. Targeted social aid	12232,4
2. Capital expenditure and augmentation of state reserve	123398,2
overhauls	27660,7
acquisition of long-term assets	81075,2
augmentation of state reserve	3000,0
capital transfers	11662,3
3. Structural reform, rehabilitation and other programs	310200,0
including:	
for land reform	34800,8
for elimination of consequences of natural disasters and big industrial accidents <sup>1</sup>	13000,0
4. Transfers	866157,7
4.1. Subsidy to CMIM of LC	5132,0
4.2. Subsidy to the budget of the judiciary	40500,0
4.3. For municipalities	434913,2
including:	
subsidies to municipalities	478002,8
contributions from municipalities	-43089,5
4.4. Subsidies to state higher educational establishments	127911,6
4.5. Subsidy to the Bulgarian Academy of Sciences	24719,0
4.6. For replenishing extra budgetary funds and accounts	232981,8
including:	
Social Security Fund	120129,8
National Housing Compensation Fund	9697,0
Rehabilitation and Social Integration Fund	1207,8
Agriculture State Fund	30000,0
Deposit and Account Guarantee Fund	57937,5
Structural and Technological Policy Fund	865,9
Science and Research Fund	863,9
National Energy Efficiency Fund	40,3
Melioration Fund	6240,0
Other extra budgetary accounts	5999,6
including:	
Securities and Stock-Exchanges Commission	817,4

Approves the 1998 state budget deficit to the total amount of 610 825,9 million Leva.

Approves the financing of the state budget deficit as follows:

Indices	Amount (million Leva)
1	2
External and internal financing (net)	610825,9
including:	
Paris Club	-201600,0
Foreign debt bonds	-106740,0
International Financial Institutions	-4900,0
Amounts reimbursed by Bulbank AD- Leva equivalent under debt bonds	40,7
Proceeds from privatization (minimum)	540000,0

The sources of financing shall be external and internal borrowing, operations with government securities and proceeds from privatization.

(6) Redemptions shall be conducted in accordance with the redemption schedules on domestic and foreign debt.

Article 2. (1) Adopts the revenues under the budget of the Council for Mutual Insurance of Members of Labor Co-operatives for 1998.

Indices	Amount (million Leva)
Revenues	16664,1
*	
*	

Adopts the expenditure under the budget of the Council for Mutual Insurance of Members of Labor Co-operatives for 1998.

Indices	Amount (million Leva)
II. Expenditure	16664,1
*	
*	

Article. 3. (1) Adopts the budget of the judiciary for 1998.

Indices	Amount (million Leva)
I. Total Revenue	57600,0
*	
II. Total Expenditure	57600,0
*	

Determines the budget expenditure of the judiciary bodies for 1998 as follows:

Judiciary Bodies	Amount (million Leva)
Supreme Judicial Council	65,7
Supreme Court of Cassation	1256,3
Supreme Administrative Court	1106,2
Courts of the Republic of Bulgaria	23351,4
Chief Prosecutor's Office	9216,0
National Investigation Service	22504,4
Reserve for emergencies and contingencies	100,0

#### Article 4. Adopts the budget of the Audit Office for 1998

Indices	Amount (million Leva)
I. Revenues	3915000
*	
II. Expenditure	3915000
*	

Article 5. (1) Determines the revenues to the amount of 141 800 675 thousand Leva and the expenditure to the amount of 1 594 303 401 thousand Leva, including transfers to extrabudgetary accounts and funds of state authorities, ministries and agencies and their subsidies from the state budget to the total amount of 1 452 502 726 thousand Leva for 1998, as follows:

State Authorities Ministries and Agencies	Revenue (in thousand Leva)	Expenditure (in thousand Leva)	Subsidy (in thousand Leva)
1. The National Assembly		17115400	17115400
2. National Statistics Institute	44850	5083958	5039108
3. Bulgarian National Radio	3000	16503121	16500121
4. Bulgarian National Television	4857	21251254	21246397
5. Bulgarian News Agency		1105000	1105000
6. Presidential Administration		2496291	2496291
7. National Protection Service	257250	10443000	10185750
8. National Intelligence Service	6500	5825000	
5818500			
9. The Council of Ministers	28000	6918170	6890170
10. Directorate General of State Reserves and and Wartime Stock at the Council of Ministers		7182000	7182000
11. Directorate General of Archives	62655	1965086	1902431
12. National Bureau of Territorial Asylum and Refugees		1237500	1237500
13. Center for Information technology Against Crime		410000	410000
14. Lozenets Clinical Hospital		6151257	6151257
15. Foreign Investment Agency	50	139767	139717
*			
*			
*			
Total:	141800675	1594303401	1452502726

Approves the subsidies to state authorities, ministries and agencies to the amount of 90 percent of allocations under Art. 1, whereas the remaining 10 percent shall be provided only in case the budget deficit approved under Article 1, paragraph 3 is not exceeded.

The restrictions referred to in paragraph 2 shall not apply to the Ministry of Defense, the Ministry of the Interior and the Ministry of Health

Assigns to the Council of Ministers to approve the budgets of state authorities, ministries, agencies and other budgetary organizations by type of revenue and expenditure, and the subsidies under Paragraph 1.

Article 6. (1) Allocates a state budget subsidy to the Bulgarian Academy of Sciences for 1998 to the total amount of 24 718 978 thousand Leva.

Approves the subsidy to the Bulgarian Academy of Sciences to the amount of 90 percent of the allocation under Paragraph 1, whereas the remaining 10 percent shall be provided only in case the budget deficit approved under Article 1, paragraph 3 is not exceeded.

Article 7. (1) Allocates state budget subsidies to state higher educational establishments for 1998 to the total amount of 127 911 636 thousand Leva.

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Approves the subsidies to state higher educational establishment to the amount of 90 percent of the allocations under paragraph 1, whereas the remaining 10 percent shall be provided only in case the budget deficit approved under Article 1, paragraph 3 is not exceeded.

Article 8. Adopts the state budget subsidies to non-profit organizations for 1998 to the total amount of 1 518 204 thousand Leva, as follows:

Non-profit organizations	Amount (million Leva)
1. Bulgarian Red Cross - National Committee	899316
2. Rila Monastery	186515
3. Bulgarian Tourist Union	35003
4. Bulgarian Motorist Union	82067
5. Bulgarian Union of the Handicapped	64885

\*

\*

Article 9. (1) Adopts hereby the revenues to the amount of 17 790 thousand Leva and the expenditure to the amount of 7 523 068 thousand Leva for 1998 from the state budget for the regional administrations and their respective state budget subsidies to the amount of 7 505 278 thousand Leva, as follows:

Regional Administrations	Revenue (in thousand Leva)	Expenditure (in thousand Leva)	Subsidy (in thousand Leva)
1	2	3	4
1. Bourgas	5000	380060	375060
2. Varna	7000	360766	353766
3. Lovech	1250	279612	278362
4. Montana		272345	272345
5. Plovdiv	4000	298849	294849
6. Rousse	540	257114	256574
7. Sofia City		184687	184687
8. Sofia Region		5188701	
188701			
9. Haskovo		300934	300934
Total:	17790	7523068	7505278

Approves the subsidies to regional administrations to the amount of 90 percent of the allocations under Paragraph 1, whereas the remaining 10 percent shall be provided only in case the budget deficit approved under Article 1. Paragraph 3 is not exceeded.

Assigns to the Council of Ministers to approve the budgets of the regional administrations by type of revenue and expenditure, and the subsidies under Paragraph 1.

Article 10. (1) Pursuant to Article 53, Item 2 of the Local Government and Local Administration Act, sets hereby the distribution of income tax revenues to the amount of 50 percent for the budgets of the municipalities and 50 percent for the state budget.

(2) The total amount of income tax from Republic of Bulgaria's representatives abroad shall go to the state budget.

Article 11. (1) Adopts in conformity with the method shown in Annex 1 the amounts of the interrelationships between the state budget and the municipal budgets for 1998 to the total amount of 434 913 234 thousand Leva, in the form of general subsidies - 425 969 754 thousand Leva, target subsidies - 52 033 000 thousand Leva and contributions to the state budget to the total amount of 43 089 520 thousand Leva, distributed by municipality as follows:

Municipalities	Budget interrelations (thousand Leva) subsidy (+)/ payment (-)	Subsidies General	Including Contributions Target	
Bourgas Region				
*				
*				
	46454286	42392286	4062000	
Varna Region				
*				
*				
	36553806	45603471	4127000	-13176665
Lovech Region				
*				
*				
	56687697	52479697	4208000	
Montana Region				
*				
*				
	35603203	40917944	3147000	-8461741
Municipalities	Budget interrelations (thousand Leva) subsidy (+)/ payment (-)	Subsidies General	Including Contributions Target	
Plovdiv Region				
*				
*				
	64677789	59911789	4766000	
Rousse Region				
*				
*				
	57288985	53377985	3911000	
Sofia City	46586668	27086668	19500000	
Sofia Region				
*				
*				
	48239084	52255188	4415000	-8431104
Municipalities	Budget interrelations (thousand Leva)	Subsidies	Including Contributions	



	subsidy (+)/ payment (-)	General	Target	
Haskovo Region				
*				
*				
	42821716	51944726	3897000	-13020010
	434913234	425969754	52033000	-43089520

Approves the subsidies to the amount of 90 percent of the sums specified in paragraph 1, whereas the remaining 10 percent shall be provided only in case the budget deficit under Article 1, paragraph 3 is not exceeded.

Article 12. (1) The Minister of Finance shall approve the lists submitted by municipalities of construction projects and other investment expenditure to be financed by the target subsidies referred to in Article 10, paragraph 1, within which it shall be compulsory to allocate funds for the environmental projects listed in Annex 2 in amounts not less than those specified in the Annex.

The Minister of Finance, acting on proposal of the municipalities, may transform in the fourth quarter of 1998 target subsidies into general subsidies, except for the target subsidies earmarked for environmental projects under Annex 2.

The percentage of expenditure made for financing the environmental projects listed in Annex 2 as of 31 December 1998 may not be less than the average percentage of expenditure for acquisition of long-term assets in other sectors.

The following sector priorities shall be observed in the distribution of target subsidies: potable water supply, health care and social welfare, education and environmental protection, combined with the requirement for short-term commissioning of projects..

Upon allocating the subsidies referred to in the preceding paragraphs, it shall be mandatory to earmark in the identification lists not less than 600 million Leva for the Stolipinovo program of the Municipality of Plovdiv, 3000 million Leva for the Metro-Sofia and related infrastructure project of the Municipality of Sofia, 200 million Leva for the overhaul of Asparuch Bridge in the Municipality of Varna, 100 million Leva for completion of the school in the Teva residential area of the Municipality of Pernik.

Article 13. (1) The state budget expenditure shall be made up to the amount of revenues accumulated in the bank account/ cash-desk.

(2) The Ministry of Finance shall periodically distribute the revenues received in conformity with the following priorities:

- foreign debt servicing payments;
- transfers for social security and to the municipalities;
- subsidies to the budget of the judiciary;
- expenditure of ministries, agencies and other budgetary organizations;

production promotion subsidies.

The ministries, agencies and their organizations shall spend budget funds by adhering to the following priorities:

medications, including outpatient free-of-charge supply, salaries, scholarships, pensions, social security compensations and benefits, food, heating, electricity, as well as maintenance of social, health care and educational establishments

acquisition of long-term assets for projects pending completion and for transitional facilities in the educational, health and social sphere, water supply, water-treatment stations and other environmental projects due to be commissioned soon.

The ministers, heads of agencies, rectors of state higher educational establishments and mayors may assume obligations for expenditure in compliance with the limitations set forth in Article 5, paragraph 2, Article 6, paragraph 2, Article 7, paragraph 2, Article 9, paragraph 2 and Article 11, paragraph 2.

State authorities shall issue mandatory instructions to their subordinate organizations and establishments concerning compliance with the requirements set forth in paragraph 4.

Article. 14. (1) In elaborating municipal budgets the relative share of budgetary funds for health care, education, social welfare and social assistance (net of funds for long-term assets, overhaul, hygiene and municipal transport) may not be smaller than the relative share of such funds in the cash expenditure statement for the preceding year, adjusted for the structural changes made.

Municipalities shall spend budgetary funds in compliance with the priorities established in Article 13, paragraph 3.

Additional expenditure may be made from the municipal budgets for acquisition of long-term assets exceeding those stipulated by this Act out of own revenues and bank loans to the amount of up to 10 percent of the annual own revenues.

In the event where the additional amount for acquisition of long-term assets is exceeded, the state budget subsidy shall be reduced by the same amount.

The budgets of municipalities making contributions to the state budget may envisage and make expenditure for acquisition of long-term assets and overhaul to the amount of up to 10 percent of their own annual revenues.

Article 15. (1) Where the actual per capita revenue exceeds the projections made pursuant to the method shown in Annex 1, the contribution to the state budget shall be increased by the difference multiplied by the number of people.

Where the actual revenue is below the projected one, the Minister of Finance shall defer the contribution to the state budget to the amount of the difference multiplied by the number

of people.

## **TRANSITIONAL AND CONCLUDING PROVISIONS**

§ 1. The Government bodies and the budgetary organizations shall be administrators of the revenues planned to be received in their own budgets, unless otherwise provided by law.

§ 2. (1) Banking services to the state budget, the state higher educational establishments, the municipalities and the extra budgetary accounts and funds shall be provided by the Bulgarian National Bank through correspondent banks determined by the Minister of Finance and the Governor of the Bulgarian National Bank in accordance with criteria established by them.

The primary administrators of budgetary credits and extra budgetary funds on the territory of Sofia shall be serviced by the Bulgarian National Bank.

§ 3. The cash implementation of the state budget in leva and foreign exchange, the budgets of state higher educational establishments, the budgets of municipalities and the extra budgetary accounts and funds, as well as the servicing of organizations under Article 8, shall be carried out by the banks pursuant to Article 29, Paragraph 3 of the Structure of the State Budget Act

§ 4. Banks shall accrue interest on the accounts of government bodies and budgetary organizations at a rate not lower than the rate applied by banks to current accounts.

§ 5. Interest on deposits of extra budgetary accounts and funds and of fund-raising accounts administered by the Minister of Finance shall be paid as revenues to the state budget.

§ 6. Interest on state receivables arrears shall be paid as revenue to the respective budget, extra budgetary account or fund to which the outstanding payment is due to be made.

§ 7. (1) All revenues from state property, managed by regional governors in implementation of the State Property Act, shall be paid as revenue to the extra budgetary accounts of the regional administrations.

The expenditure necessary for management of state property shall be made out of the proceeds to extra budgetary account under Paragraph 1.

(3) Within fifteen days after the expiry of each quarterly accounting period, 90 percent of the cash available in the extra budgetary accounts under paragraph 1 shall be transferred to the state budget.

§ 8. Real estate and incomplete construction, given to or being built by the Ministry of Defense or the Ministry of the Interior, which is no longer needed, shall be sold pursuant to the

procedure stipulated in the State Property Act and the net proceeds shall be paid to the budget of the respective ministry.

§ 9. Raising and spending of funds for 1998 extra budgetary accounts and funds pursuant to Annex 3 shall be conducted in conformity with the established procedure pending their regulation by law.

§ 10. The surpluses available under extra budgetary accounts and funds of government bodies, budgetary organizations and municipalities, for which there are no more legal grounds, shall be transferred to the relevant budget within one month after promulgation of the Act, unless otherwise provided by law.

§ 11. Funds for social, utility and cultural services shall be spent and accounted for by the government bodies and the budgetary organizations, as well as by the municipalities in accordance with the procedure for extra budgetary funds.

§ 12. (1) The funds under the Emergency Social Assistance Program of the European Union for the Republic of Bulgaria shall be accounted for and spent pursuant to Article 45, paragraph 2 of the Structure of the State Budget Act and shall be kept in a special bank account of the Ministry of Labor and Social Policy in compliance with the agreed terms.

Compensations shall be paid by the National Social Welfare Center through the regional social welfare centers and the Minister of Labor and Social Policy shall provide out of the account referred to in paragraph 1 the Leva equivalent of the amounts necessary.

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§ 22. The Minister of Finance shall modify subsidies to municipalities in response to partial changes in the administrative and territorial division of the country.

§ 23. The funds necessary for maintenance of newly-established municipalities, municipal councils and municipal administrations under the Administrative and Territorial Division of the Republic of Bulgaria Act, provided for in the expenditure side of the 1998 state budget, shall be identified and made available pursuant to a procedure determined by the Minister of Finance.

§ 24. (1) The funds available to municipalities under the Housing Construction Fund which are not spent for the purposes of the Fund under the existing legal framework, may by decision of the municipal councils be used for construction of infrastructure projects.

(2) The provision of paragraph 1 shall not apply where municipalities are obliged to provide compensation to owners of alienated real estate and to young people who had been engaged in construction under the repealed CMD ? 70 of 1980 aimed at improving the conditions for training and realization of young people.

§ 25. (1) Within one month after the adoption of the decree on the implementation of the state budget pursuant to Article 21, paragraphs 1 and 2 of the Structure of the State Budget

Act, the municipal councils shall adopt and submit to the Ministry of Finance and the Audit Office the 1998 municipal budgets, including projected financing and lists of construction projects and other investment expenditure in compliance with the procedure and limitations established under Article 12.

In the event of non-compliance with the provision of paragraph 1 or of failure to comply with the provisions of Article 12, the Ministry of Finance shall discontinue the transfer of specified subsidies to municipalities under Article 11, paragraph 1, as well as the target funds from the state budget.

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§ 29. In the event of temporary shortage of budget funds, the authorities disposing of budget credits may use as loans free funds from their extra budgetary accounts and funds, which have to be reimbursed not later than 25 December 1998.

§ 30. Where budgetary departments financed by the state budget or by the municipal budgets, are accommodated in municipal or state-owned buildings, they shall pay no rent.

§ 31. The funds approved by the Act for the purpose of equity participation of municipalities in joint construction, reconstruction, repair and maintenance of the fourth-grade national roads, for overhaul of municipal educational and health care establishments, shall be distributed to municipalities by the Council of Ministers by 30 April 1998.

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§ 37. The overdue debts of district heating companies with state or municipal assets to the total amount of 1 143 million Leva, listed in Annex No.4, which have been transformed into interim financial aid pursuant to CMD No. 198 of 1992 on measures to settle the financial deficit of companies under the Committee of Energy, shall be written off and their capital shall be increased by the same amount.

§ 38. The target funds for construction of small-sized water-supply projects under Article 1, paragraph 2, subparagraph 1.5.9 shall be distributed in compliance with the procedure established by the Council of Ministers.

§ 39. Pursuant to the provisions of Article 56 of the Corporate Income Tax Act, persons with tax liability shall make monthly advance payments on the basis of 1/12 of their annual taxable profit for 1997, adjusted by a coefficient of 0.9.

§ 40. (1) State-owned and municipal enterprises, firms and sole proprietorship

companies with state or municipal participation, respectively which have leased out real property provided to them, whether built-up or not, shall pay 50 percent of the rent received to the state budget, and the municipal enterprises and companies - to the municipal budget.

For property leased out by joint companies with state or municipal participation, 50 percent of the rent received in proportion to the state or municipal participation shall be paid to the respective budget.

Real property under paragraphs 1 and 2 shall be leased out at prices, which may not be lower than the prices determined by the Council of Ministers or the municipal councils.

Paragraphs 1, 2 and 3 shall not apply to legal persons whose object of activity is to lease out state or municipal property provided to them.

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§ 42. (1) New secondary legislation which obliges municipalities to make additional expenditure, shall be applied during the fiscal year in conformity with Articles 34 and 35 of the Structure of the State Budget Act.

Provided the conditions under paragraph 1 are not met, the secondary legislation shall come into effect as of the beginning of the following fiscal year.

§ 43. By decision of the municipal council and in compliance with contracts entered into with the Ministry of Culture, funds for maintenance, including for salaries and social security contributions, may be provided out of the 1998 municipal budget to state drama and puppet theaters, philharmonic orchestras, opera theaters and other cultural organizations.

§ 44. (1) The amount of the budget interrelations between budgetary organizations and the state budget shall be deemed changed as of the date indicated in the written notice by the Minister of Finance.

The provisions of Articles 19 and 20 of the Protection Against Unemployment and Promotion of Employment Act shall be applied by the budgetary organizations as of 1 January 1999.

§ 45. (1) On each drawing of cash for payment of wages and salaries or parts thereof, except for sums for advance payments under Article 270, paragraph 2 of the Labor Code, the relevant payment documents must be deposited with the bank, showing that the amounts due have been paid to the social security funds, to the Vocational Training and Unemployment Fund, and for taxes under Article 38 of the Income Tax Act.

In case of breach of the provisions of paragraph 1, the persons in default shall be fined up to the amount of 500 000 Leva.

Regardless of the liability under paragraph 2, a material sanction shall be imposed on the respective bank or on the State Savings Bank up to the amount of the default.

The fines and material sanctions shall be imposed by the Minister of Finance or persons authorized by him pursuant to the Administrative Violations and Penalties Act and shall be paid as revenues to the state budget.

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§ 51. The implementation of this Act shall be assigned to the Council of Ministers.

§ 52. This Act shall come into effect on 1 January 1998.

**Annex 1  
to Article 10, paragraph 1**

**METHOD  
for determining budget interrelations between  
the state budget and the municipal budgets for 1998**

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**Annex 2  
to Article 12, paragraph 1**

**LIST  
of environmental projects envisaged for construction in 1998**

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\*  
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**Annex 3  
to § 9**

**LIST  
of extra budgetary accounts and funds pending regulation by law**

\*  
\*  
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**Annex ? 4  
§ 41**

**LIST  
of sole proprietorship companies with state or municipal assets  
whose debts transformed into interim financial aid from the budget  
under CMD ? 198 of 1992 shall be written off**

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## MUNICIPAL BUDGETS ACT

Promulgated in the *Official Gazette* No.33 of March 24, 1998 by Presidential Decree No.95 dated March 24, 1998

### Chapter One GENERAL PROVISIONS

**Article 1.** This Act regulates the preparation, adoption, implementation, balancing off and reporting of municipal budgets, the budget relationships between the municipalities and the executive budget, and the treatment of municipalities' off-budget resources.

**Article 2.** Municipal budgets and off-budget resources shall be managed by the local government authorities and the local administration in compliance with the provisions of the law.

### Chapter Two MUNICIPAL BUDGETS

**Article 3. (1)** Each municipality shall have a separate budget.

**(2)** The municipal budget shall be a separate financial account of the municipality's revenues and expenditures for a single budget year.

**(3)** The budget year shall be concurrent with the calendar year.

**Article 4.** The municipal budget shall be the means of authorization and allocation of cash resources which the municipality may spend, applying the principles of legality, economy, expediency, effectiveness, efficiency, public openness and in the interests of the municipal community.

**Article 5.** The municipal budget shall be open to public scrutiny and shall be controlled by the community through the Municipal Council and by competent authorities as designated by statute.

**Article 6. (1)** The revenue side of the municipal budget shall consist of revenues from own sources, transfers of public revenue to the municipality, and grants and subventions allocated from the executive budget.

**(2)** Revenues from own sources shall comprise:

**1.** local and other taxes levied by statute;

**(a)** real-estate tax;

**(b)** inheritance tax;

**(c)** gift tax;

**(d)** tax on onerous transfer of property;

**(e)** vehicle tax;

**(f)** municipal tax;

**(g)** tax on the profit accruing to persons wherein the municipality holds an interest exceeding 50 percent;

**(h)** other local taxes imposed by statute;

**2.** local fees charged for:

**(a)** disposal of municipal solid waste;

**(b)** use of retail markets, wholesale markets, fairs, sidewalks, squares and street roadways;

**(c)** attendance of crèches, kindergartens, camps, hostels, residence at public care homes and benefit of other forms of social work service;

**(d)** vacation at resorts;

**(e)** quarrying;

**(f)** technical services;

**(g)** administrative services;

**(h)** dog registration;

**(i)** lease of grave plots;

**(j)** security and conservation of agricultural real estate;

- (k) other local fees imposed by statute;
- 3. proceeds from granting of concessions;
- 4. fines and pecuniary penalties collected in pursuance of penalty decrees issued by a local administration body, unless otherwise provided for by statute;
- 5. interest income;
- 6. rents and revenue from other own sources.
- (3) Transfers of public revenue shall be those specified by statute.
- (4) Grants and subventions allocated from the executive budget shall comprise:
  - 1. general grants, allocated according to objective criteria as established in the National Budget of the Republic of Bulgaria Act for the relevant year;
  - 2. ad hoc grants, allocated in specific instances for acquisition of tangible non-current assets and for implementation of regional programs and of projects of national importance;
  - 3. subventions, allocated in specific instances from the national budget for a specific purpose on specified conditions.

**Article 7. (1)** In planning the revenue side of the budget, the Municipal Council shall determine the receipts from:

- 1. the local fees by type as imposed by statute;
- 2. management, administration and disposition of municipal property;
- 3. fines for violations of regulations adopted by the said council;
- 4. the services and rights provided or granted by municipalities to natural persons and legal entities, which are unregulated by statute.

(2) The municipal budget revenues, with the exception of ad hoc grants and subventions allocated from the executive budget, shall be used to defray all expenditures as shall be approved under the municipality budget by the Municipal Council.

**Article 8.** The expenditure side of the municipal budget shall grant budgetary obligational authority for:

- 1. health-care, social, educational, cultural, sports and tourist programs and programs for child and youth development;
- 2. urban planning and development of the municipal territory, public services and public works;
- 3. management and administration of municipal property;
- 4. provision of administrative and technical services to the community;
- 5. environmental protection programs;
- 6. maintenance of public order and protection of private and municipal property;
- 7. maintenance of the Municipal Council and of the municipal administration;
- 8. information support;
- 9. acquisition of non-current assets;
- 10. outlays on promotion and provision of information for attraction of investors.
- 11. joint activities of mutual interest with other municipalities, enterprises and the State;
- 12. investment or property in business activity and support of enterprises for activities related to the requirements of the municipality and the community;
- 13. activities related to national defense and to the armed forces;
- 14. activities intended to protect the community in the event of natural disasters and industrial accidents;
- 15. collection of statistics;
- 16. implementation of international programs within the municipal territory;
- 17. repayment of borrowings;
- 18. contributions to the executive budget, determined by the National Budget of the Republic of Bulgaria Act for the relevant year;
- 19. extension of loans to other municipalities;
- 20. any other outlays which do not contravene the law.

**Article 9.** In planning the expenditure side of the budget under Article 8 herein, the Municipal Council shall determine the specific extent of budgetary obligational authority for:

- 1. wages and salaries, social security contributions and maintenance of activities financed from the municipal budget, and of the staff engaged therein;
- 2. self-financed acquisition of non-current assets;
- 3. labor remuneration of the mayors, the municipal administration and the units attached thereto;
- 4. maintenance of the Municipal Council, the municipal administration and the units attached thereto;

5. training and education of municipal employees in Bulgaria and abroad;
6. scholarships for students under contract with the municipality;
7. entertainment expenses;
8. overhead expenses and subsidizing the price of meals at student canteens and of dietetic food for the community;
9. subsidizing the price of take-away cooked baby food;
10. welfare benefits and allowances;
11. other outlays fixed by a statutory instrument;
12. other outlays (*inter alia* on services) which do not contravene the law.

**Article 10. (1)** The budget deficit planned in the process of preparation of the municipal budget may not exceed 10 per cent of the receipts covered under Article 6 herein.

**(2)** By resolution of the Municipal Council, the budget deficit shall be financed by means of:

1. issues of securities;
2. municipal bond issues;
3. loans from financial institutions;
4. off-budget resources and other sources.

**(3)** Any transactions in securities covered under Items 1 and 2 of the foregoing Paragraph, which are owned by the municipality, shall be effected according to the procedure established by the Securities, Stock Exchanges and Investment Companies Act.

### **Chapter Three** **MUNICIPAL BUDGET PREPARATION AND ADOPTION**

**Article 11. (1)** The draft budget of any municipality shall be prepared proceeding from:

1. the strategy and projections for development of the municipality, as adopted by the Municipal Council;
2. the budget projection, in conformity with general economic requirements, outlining the parameters of the municipal budget for the next succeeding three years;
3. suggestions submitted by the community;
4. requests from the mayors and from the ward councils;
5. requests regarding the amount of the different types of revenue and expenditure of the public-financed organizations maintained by the municipality;
6. the municipality's budget indebtedness;
7. proposals of the competent ministries regarding structural changes within the systems under the jurisdiction thereof not affecting the autonomy of the municipal budget;
8. the budget projection for the national budget;
9. obligations under national and regional programs and projects.

**(2)** Draft budgeting shall be organized by the municipality mayor, in cooperation with the mayoralty mayors and the ward mayors and the authorities of the tax administration.

**(3)** The municipality mayor shall submit to the Ministry of Finance a proposal for budget relationships within a time limit as established by the Minister of Finance;

**(4)** The municipality mayor shall prepare the final draft budget proceeding from estimates provided by the Ministry of Finance as to anticipated revenues from own sources according to the procedure established by Item 8 of Paragraph (1) and the budget relationships as determined by the National Budget of the Republic of Bulgaria Act for the relevant year.

**(5)** The draft budget shall be submitted by the municipality mayor before the Municipal Council.

**(6)** The Municipal Council committees shall study the draft budget and shall prepare observations thereon in compliance with the Municipal Council and Municipal Administration Rules of Procedure.

**(7)** Information on the draft budget shall be made available for public debate under terms and according to a procedure established by the Municipal Council.

**Article 12.** The Municipal Council shall adopt the municipal budget within a time limit as established by the National Budget of the Republic of Bulgaria Act for the relevant year and according to the uniform budget classification.

**Article 13.** The municipality budget shall be apportioned by quarter and by type of revenue and expenditure according to the uniform budget classification as effective for the relevant budget year.

**Article 14.** On the expenditure side, the Municipal Council may provide for a reserve budgetary obligational authority not exceeding 5 percent of the revenues covered under Article 6 herein.

**Article 15. (1)** The budget as adopted by the Municipal Council and supplementary information thereto attached shall be submitted to the competent regional office of the National Audit Office and to the Ministry of Finance within time limits and according to a procedure established by the President of the National Audit Office and the Minister of Finance, respectively.

**(2)** Should the Municipal Council do not adopt the municipal budget according to the procedure established by Article 12 herein or fail to submit the said budget within the time limits under Paragraph (1), the Minister of Finance may suspend the transfers from the executive budget.

**(3)** Where no Municipal Council has been elected, the budget relationships with the affected municipality shall be determined according to a procedure established by the Council of Ministers.

**Article 16.** Where the national budget has not been adopted, not less than one-twelfth of the [annual] grant finalized as of the 31st day of December in the next preceding year shall be remitted to the municipality on a monthly basis in the form of a short-term interest-free loan. The amount of such resources and the procedure for the remittance thereof shall be established by the Council of Ministers after consultations with the National Association of Municipalities in the Republic of Bulgaria.

**Article 17. (1)** Where new municipalities have been formed or where the administrative boundaries and territories of existing municipalities have been revised, any alterations in the budgets of the affected municipalities and the relationships thereof with the executive budget shall follow a procedure established by the Minister of Finance.

**(2)** The Municipal Council of the existing municipality shall adopt the alteration in the annual municipal budget not later than 45 days after the separation of the new municipality.

**(3)** The Municipal Council of the newly formed municipality shall adopt a municipal budget for the remainder of the current budget year not later than 45 days after the conduct of the pre-term elections.

**(4)** Where two or more municipalities are merged, an amalgamated budget of the newly formed municipality shall be prepared and shall be adopted by the newly elected Municipal Council not later than 45 days after the conduct of the elections.

**Article 18.** The municipal budget may be altered during any current year in the manner in which the said budget was adopted.

#### **Chapter Four** **MUNICIPAL BUDGET IMPLEMENTATION**

**Article 19. (1)** Implementation of the municipal budget shall commence on the 1st day of January and shall be completed on the 31st day of December.

**(2)** The implementation of the municipal budget shall be organized by the municipality mayor through the mayoralty mayors and the ward mayors and through the heads of public-financed organizations maintained by the municipal budget.

**Article 20.** Municipal budget revenues from own sources shall be collected by the municipal administration unless otherwise provided for by statute.

**Article 21. (1)** The cash implementation of the municipal budget shall be handled by the Bulgarian National Bank through Bulgarian commercial banks and the State Savings Bank.

**(2)** Any operations related to the cash implementation of the municipal budget, including the safekeeping of cash and valuables, shall be effected gratuitously.

**Article 22.** Municipal budget outlays may be committed up to the amount of receipts covered under Articles 6 and 10 herein, reckoning with the priorities as established by statute.

**Article 23.** Should temporarily idle cash resources be available, the municipalities may place the said resources on time deposits with the servicing banks thereof as well as purchase government securities under most favorable terms of yield and investment risk.

**Article 24. (1)** Any deficiency of resources as may temporarily occur in the process of budget implementation shall be made up, by resolution of the Municipal Council, with borrowing from:

1. off-budget resources and funds of the municipalities, with the exception of such established by endowment and the resources provided under international programs and agreements;
2. banks and other financial institutions;
3. the executive budget, under terms and within time limits as established by the Minister of Finance;
4. other municipalities.

(2) The total amount of resources covered under Paragraph (1) which are borrowed within the relevant year may not exceed the amount specified under Article 10 (1) herein.

(3) Any borrowings covered under Paragraph (1) shall be repaid, as follows:

1. in respect of off-budget resources and funds: by resolution of the Municipal Council;
2. in respect of banks, other financial institutions and municipalities: according to the agreed terms and conditions but not later than the end of the budget year;
3. in respect of the executive budget: within time limits established by the Minister of Finance but not later than at the end of the budget year.

**Article 25.** The municipality mayor shall report to the Municipal Council on the current implementation of the budget for the first half of the year. Where necessary, the Municipal Council shall adopt further action for implementation of the budget and for maintenance of budgetary and financial discipline.

**Article 27. (1)** In the course of the budget year, for the purposes of improving the efficiency of budget expenditures, and in view of the actual needs of the community, the Municipal Council may open, close down, or restructure public-financed organizations in the municipality, acting within the competence thereof.

(2) The financial consequences of any Municipal Council resolution under Paragraph (1) shall be for the account of the municipal budget.

**Article 27. (1)** Aside from the instances covered under Article 24 herein, the Municipal Council may resolve in respect of the relevant budget year to vest the municipality mayor with the following powers in connection with any newly occurred and proven pressing needs, while staying within the total amount of the budget as approved by the Municipal Council and reckoning with the order of priority of expenditures as established by statute:

1. to alter the extent of budgetary obligational authority as granted for the different types of expenditure within the limits of the total outlay for any single public-financed activity;
2. to transfer budgetary obligational authority as granted for different types of expenditure from one activity to another, within the limits of a single budget group, without altering the total extent for the said group;
3. to dispose of the reserve budgetary obligational authority.

(2) In exercise of the powers covered under Paragraph (1), the mayor shall issue orders.

**Article 28. (1)** In his or her capacity as primary grantee of budgetary obligational authority, the municipality mayor shall issue an order establishing the rights and responsibilities of the secondary and tertiary grantees of budgetary obligational authority.

(2) The municipality mayor shall limit or suspend financing of any public-financed organization or unit which is proven to have violated budgetary discipline until the said violation is rectified, giving notice to the competent authorities.

## **Chapter Five MUNICIPAL BUDGET REPORTING**

**Article 29.** The municipal budget shall be balanced off and reported according to the procedure and within the time limits established for balancing off and reporting of the national budget.

**Article 30. (1)** The Municipal Council shall consider and adopt the annual report on the implementation of the municipal budget according to a comprehensive budget classification.

(2) Any municipality shall submit periodic and annual reports on the implementation of the budget thereof according to a comprehensive budget classification, as well as supplementary information in a format, contents and within time limits as prescribed by the competent authorities.

(3) The annual report on the implementation of the municipal budget, as adopted [by the Municipal Council] and as

certified by the National Audit Office, shall be presented to the Ministry of Finance for its information.

(4) Information on the implementation and balancing off of the municipal budget shall be made public to the community according to a procedure established by the Municipal Council.

## **Chapter Six**

### **MANAGEMENT OF BUDGET AND OFF-BUDGET RESOURCES**

**Article 31.** The budget and off-budget resources shall be managed by the bodies of local government, the mayor and the municipal administration who and which shall:

1. organize the elaboration, adoption and updating of the budget projection for a period of three years;
2. organize the elaboration, adoption and updating of the municipal budget;
3. exercise day-to-day management of the collection of revenues excluding such covered under Item 1 of Article 6 (2) and of the appropriation of resources from the budget, the off-budget accounts and the funds of the municipality;
4. organize the reporting of budget and off-budget resources in compliance with the law;
5. assist the authorities of the National Audit Office and of the Ministry of Finance in the performance of the functions and tasks thereof on the territory of the municipality.

**Article 32. (1)** Day-to-day management of budget and off-budget resources shall be exercised by specialized finance services of the municipality in compliance with the law and with the resolutions of the Municipal Council.

(2) The specialized finance services of the municipality shall be the Finance Department (Division) and the Accounting Department.

(3) The head of the Finance Department (Division), who shall report directly to the municipality mayor, shall organize the performance of the tasks covered under Article 31 herein and shall certify payment documents and financial statements.

(4) The services under Paragraph (1) shall be separated from the structure of the Ministry of Finance and shall not form part of the territorial offices and units thereof.

**Article 33.** The management of budget and off-budget resources shall receive methodological guidance from the Ministry of Finance.

## **Chapter Seven**

### **RELATIONSHIPS OF THE MUNICIPAL BUDGET WITH THE EXECUTIVE BUDGET**

**Article 34.** The relationships of the municipal budget with the executive budget shall be implemented through:

1. a general grant, allocated to support the activities of the municipality;
2. contributions to the executive budget;
3. ad hoc grants, allocated in specific instances for acquisition of non-current assets;
4. financial compensation from the State;
5. short-term interest-free loans from the executive budget;
6. resources for implementation of the state policy to promote the development of municipalities, and for implementation of national and regional programs and projects.

**Article 35. (1)** The amount of general and ad hoc grants allocated to support the activities of municipalities and the contributions to the executive budgets shall be specified by the National Budget of the Republic of Bulgaria Act for the relevant year.

(2) Budget relationships with the executive budget under Items 1, 2 and 3 of Article 34 herein shall be determined under objective criteria by means of a Methodology for Determining Budget Relationships of the Executive Budget with the Municipality Budgets, which shall be approved annually as part of the National Budget of the Republic of Bulgaria Act.

(3) Participation in the apportionment of ad hoc funds for acquisition of non-current assets shall be subject to the condition that the benefiting municipality be able to co-finance the projects from own sources thereof.

(4) Ad hoc grants may be transformed into general grants according to the statutory procedure.

(5) Any ad hoc grants which have not been utilized shall be restored to the executive budget according to a procedure and within time limits as established by the Council of Ministers.

(6) Should any municipality mayor fail to comply with the provisions of Item 8 of Article 44 (1) of the Local Self-Government and Local Administration Act in respect of the amount of budget relationships between the municipality and the executive budget, the Minister of Finance shall make the relevant alterations as a matter of course.

(7) The amount of budget relationships of the municipal budget with the executive budget shall be deemed to be altered as from the date of written notice by the Minister of Finance.

**Article 36. (1)** Any municipality shall receive financial compensation from the State upon:

1. attachment of additional financial obligations to the municipality by statutory instruments after the adoption of the National Budget of the Republic of Bulgaria Act and the budget relationships with the municipality for the relevant year as thereby established;

2. revision of labor remunerations of employees in the public-financed organizations maintained by the municipalities, by a Council of Ministers decree;

3. in other cases prescribed by statute.

(2) Should the resources covered under Item 3 of Paragraph (1) be not provided, the statutory instruments shall enter into force and shall be provided with resources during the next succeeding budget year.

**Article 37.** The Minister of Finance shall hold consultations with the National Association of Municipalities in the Republic of Bulgaria on the draft National Budget of the Republic of Bulgaria Act for the relevant year in the part thereof pertaining to the municipalities.

**Article 38.** Short-term interest-free loans from the executive budget may be extended to the municipalities in exceptional cases, according to a procedure and within time limits as established by the Minister of Finance.

**Article 39.** For implementation of the state policy to promote the balanced development of municipalities and areas, there shall be established a Regional Development National Fund by a separate statute.

## **Chapter Eight**

### **RELATIONSHIPS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

**Article 40. (1)** By resolution of the Municipal Council, the municipality may effect any lawful transactions with Bulgarian banks and with other financial institutions.

(2) Bank loans contracted by the municipality shall be secured by a mortgage and/or a pledge of municipal property.

(3) No debts incurred by municipalities and covered under Paragraphs (1) and (2) may be repaid by resources allocated from the national budget.

(4) Within six months before the expiration of its term of office, the Municipal Council may not resolve on contracting bank loans, on issuing municipal bonds, or on extending short-term interest-free loans from the municipal budget.

(5) Any contract of loan or any bond issue, which attaches or may attach to the State financial obligations to foreign creditors or which envisages subsequent ratification, shall be concluded solely by resolution of the National Assembly on a motion introduced by the Council of Ministers.

**Article 41.** By resolution of the Municipal Council, municipalities may conclude contracts between themselves for extension and utilization of loans under the terms established by this Act.

## **Chapter Nine**

### **OFF-BUDGET RESOURCES OF THE MUNICIPALITY**

**Article 42. (1)** Off-budget resources shall be raised and disbursed through off-budget accounts and funds which are:

1. subject of an express statutory provision;

2. subject of a specified expression of will such as donation, testament, local referendum and other resources, provided by natural persons and legal entities and organizations.

(2) Annual receipts and expenditure accounts shall be prepared for the off-budget resources, and the said accounts shall be adopted by the Municipal Council together with the municipal budget.

(3) Should the municipal budget be not adopted, the off-budget accounts shall be adopted by the Municipal Council within one month after the commencement of the budget year.

(4) The report on disbursement of off-budget resources shall be adopted together with the report on the implementation of the municipal budget.

(5) Bank servicing of off-budget accounts of the municipality, as well as reporting of operations in, and assets on, such accounts, shall follow the procedure established by the National Budget Procedures Act.



**Article 43. (1)** The approved estimates of off-budget resources and the reports thereon shall be submitted to the regional offices of the National Audit Office and of the Ministry of Finance.

**(2)** Municipalities shall present periodic and annual reports on any off-budget accounts, as well as supplementary information in a format, contents and within time limits as prescribed by the Ministry of Finance in coordination with the National Audit Office.

### **SUPPLEMENTARY PROVISION**

**Clause 1.** For the purposes of this Act:

**1.** "Budget revenues" are the cash resources anticipated and received in the municipal budget in pursuance of acts of statutory and subordinate legislation, resolutions of the Municipal Council etc.

**2.** "Budget expenditures" are the cash resources disbursed from the municipal budget according to the laws of the land and the resolutions of the Municipal Council.

**3.** "Budget grants" are the resources provided gratuitously from the national budget to the municipalities, or from the municipal budget to mayoralities, wards and municipal-owned commercial corporations and municipal enterprises, for a general or specific purpose.

**4.** "On-budget account" is an entity at financial law wherethrough the resources for a specified public-financed activity or unit having no separate budget are raised and disbursed for the relevant budget year.

**5.** "Budgetary obligational authority" are the resources voted within the limits of the budget, determining the amount of a specified outlay.

**6.** "Off-budget account" is an entity at financial law regulating the off-budget revenues and expenditures placed at the disposal of the municipalities for the relevant budget year.

**7.** "Budgetary discipline" is the behavior due by virtue of the law from the mayor and the specialized finance services of the municipality, and from the grantees of budgetary obligational authority in respect of compliance with the extents of budgetary obligational authority during the separate accounting periods and compliance with the share of expenditures as approved by the Municipal Council by budget section, reckoning with the priorities as approved by the National Budget of the Republic of Bulgaria Act for the relevant year.

**8.** "Budget indebtedness" is the amount of the balance of received resources outstanding less the amount of budget resources in hand.

**9.** "Budget deficit" is the excess of expenditures covered under Article 8 herein over revenues covered under Article 6 herein.

### **TRANSITIONAL AND FINAL PROVISIONS**

**Clause 2.** The provisions of this Act may be amended, supplemented or repealed solely by express statute to amend and supplement this Act or the National Budget Procedures Act.

**Clause 3.** Any off-budget resources borrowed prior to the date of entry of this Act into force shall be repaid within time limits as established by the Municipal Council.

**Clause 5.** This Act repeals:

**1.** Article 51 (2), Article 52 (2) and (3), Articles 53, 55, 56, 57 and 58 of the Local Self-Government and Local Administration Act (promulgated in the *Official Gazette* No.77 of 1991; amended and supplemented in Nos.24, 49 and 65 of 1995 and No.90 of 1996 and No.122 of 1997).

**2.** Item 1 of Article 6 (1) of the Act to Settle the Housing Problems of Long-Standing Home-Purchase Savings Depositors (promulgated in the *Official Gazette* No.82 of 1991; amended and supplemented in Nos.62 and 94 of 1992; corrected in No.9 of 1993; amended in No.90 of 1993, No.16 of 1996 and No.123 of 1997);

**3.** Clause 5 of the Supplementary Provisions to the Territorial Administration of the Republic of Bulgaria Act (promulgated in the *Official Gazette* No.63 of 1995; amended in No.51 of 1996 - Constitutional Court Judgment No.8 dated June 6 1996; amended and supplemented in No.27 of 1998);

**4.** Article 5 (3), Article 9 (2) and Article 17 (2) of the Roads Act (promulgated in the *Official Gazette* No.93 of 1969; amended in No.37 of 1978, No.35 of 1996 and No.87 of 1997).

**Clause 5.** In Article 22 (2) of the Local Self-Government and Local Administration Act, the figure "50,000" shall be replaced by "500,000".

**Clause 10.** The implementation of this Act shall be entrusted to the Council of Ministers, which shall issue implementing regulations therefor, to the municipal councils, and to the mayors.

This Act was passed by the 38th National Assembly on the eleventh day of March in the year one thousand nine hundred and ninety-eight, and the State Seal has been affixed thereto.

Chairman of the National Assembly:

**Yordan Sokolov**

## APPENDIX D

### LOCAL SELF-GOVERNMENT AND LOCAL ADMINISTRATION ACT

Passed by the Grand National Assembly on September 6, 1991. Effective as promulgated in the *Official Gazette* No.77 of September 17, 1991. Amended and supplemented in the *Official Gazette* No.49 of May 30, 1995 and No.65 of July 21, 1995, amended in No.30 of October 24, 1996, supplemented in No.122 of December 19, 1997, last amended in No.33 of March 24, 1998.

#### Chapter One GENERAL PROVISIONS

**Article 1.** This Act regulates the public relationships relevant to local self-government and local administration.

**Article 2.** (*Amended, Official Gazette No.65/1995*) (1) The territory of the Republic of Bulgaria shall be divided into municipalities [*obshtini*, singular - *obshtina*] and regions [*oblasti*, singular - *oblast*].

(2) Mayoralties [*kmetstva*, singular - *kmetstvo*] and wards [*rayoni*, singular - *rayon*] shall constitute political subdivisions within a municipality. Any mayoralty or ward shall be established to perform functions and act within competencies thereto entrusted by statute or by resolution of the [competent] Municipal Council.

(3) (*Added, Official Gazette No.65/1995*) In each municipality, there shall be elected a Municipal Council and a municipality mayor.

(4) (*Added, Official Gazette No.65/1995*) In each mayoralty, there shall be elected a [mayoralty] mayor, and in each ward there shall be elected a Ward Council and a [ward] mayor.

**Article 3.** (*Amended, Official Gazette No.65/1995*) The system of territorial administration of the Republic of Bulgaria shall be established by statute.

**Article 4.** (1) Upon establishment of any new municipality, elections for a Municipal Council shall be held within three months after the decision.

(2) In the instances under Paragraph (1), the [competent] Regional Governor shall appoint an interim mayor whereof the powers shall be extinguished by the election of a mayor.

**Article 5.** The municipality shall be a basic political unit wherein local self-government shall be exercised.

**Article 6.** (*Repealed, Official Gazette No.65/1995*).

**Article 7.** The region shall be a unit of administration where no elected bodies of local self-government shall be created. Bodies and services of central government may be created in the administrative center of any region.

**Article 8.** (1) (*Amended, Official Gazette No.24/1995 and No.65/1995*) The Metropolitan Municipality shall be a political unit which shall furthermore enjoy the status of a region. In the said Municipality, self-government of the community thereof shall combine with implementation of a state policy to promote the development of the capital city.

(2) (*Repealed, Official Gazette No.65/1995*).

**Article 9.** (*Amended, Official Gazette No.65/1995*) (1) Political units may form voluntary associations to address problems and tasks of common interest.

(2) For protection of the common interests thereof and for promotion and development of local self-government, municipalities may form a national association and regional associations.

(3) The national association of municipalities shall have the right to:

1. represent the members thereof before state bodies;
2. draft proposals to amend and improve the legal framework of local self-government;
3. prepare observations and proposals on the draft national budget in the part thereof pertaining to the municipalities;
4. maintain liaison and interact with similar organizations in other countries, as well as join international associations;
5. perform any other functions as may be specified by the basic instrument thereof.

(4) The rights under Paragraph (3) may be exercised subject to the condition that not less than two-thirds of all

municipalities in Bulgaria are affiliated to the association.

## **Chapter Two MUNICIPALITY**

**Article 10.** *(Amended, Official Gazette No.65/1995)* (1) The territory of any municipality shall comprehend the territories of the constituent mayoralties or population centers.

(2) Any disputes over territorial boundaries between population centers shall be settled by the [competent] district court.

**Article 11.** *(Amended, Official Gazette No.65/1995)* Local self-government at the municipal level shall be expressed in the right of the citizens or of bodies thereby elected to make decisions, acting within the scope of the competence thereon conferred, on issues pertaining to:

1. municipal property, municipal-owned enterprises, municipal finances, taxes and fees, municipal administration;
2. organization and development of the municipal territory and of the population centers therein;
3. education: pre-school, elementary, primary and secondary education;
4. health care: outpatient, polyclinic and hospital care, preventive care, community care, and municipal sanitation and hygiene;
5. culture: community centers, theaters, orchestras, libraries, museums and museum collections, amateur art activities, rituals, local traditions and customs;
6. public works and utilities: water supply, sewerage, electricity supply, central heating, telephone line installation, streets and squares, parks, gardens, street lighting, landscaping, river-bed and gully correction, municipal waste management, public transit, public baths, laundries, hotels, garages, and cemeteries;
7. social assistance: social care and welfare benefits, provision of subsidized housing and other social work of municipal importance;
8. environmental protection and rational use of natural resources of municipal importance;
9. maintenance and conservation of historical, cultural and architectural landmarks of municipality-wide importance;
10. development of sports, recreation and tourism of municipal importance.

**Article 12.** Each municipality shall bear the name of the population center which shall be the administrative center thereof.

**Article 13.** All citizens, who reside within the territory of a municipality and are entered in the civil register, shall be residents of the said municipality.

**Article 14.** Each municipality shall be a legal entity and shall have the right to own property and to have a self-contained municipal budget.

**Article 15.** *(Amended, Official Gazette No.65/1995)* Any Municipal Council may establish municipal administration services in individual mayoralties, population centers, wards and neighborhoods.

**Article 16.** Each municipality may designate its own official symbols and honorary titles in conformity with the law.

**Article 17. (1)** *(Renumbered from previous Article 17, Official Gazette No.65/1995)* Citizens shall participate in local self-government by making decisions on issues of local concern directly, by means of general meetings, referenda or other forms, or through bodies thereby elected, which shall develop and implement a local policy consistent with the interests of the community.

(2) *(Added, Official Gazette No.65/1995)* Local referenda shall be held on issues related to the implementation of the policy of the municipality covered under Article 11 herein. A resolution to conduct a referendum shall be passed by the Municipal Council by a majority of more than one-half of the total number of councilors.

(3) *(Added, Official Gazette No.65/1995)* Local referenda and general meetings of the community shall be called and conducted under terms and according to a procedure established by statute.

(4) *(Added, Official Gazette No.65/1995)* The expenses incurred on the conduct of any referendum or general meeting shall be borne by the municipal budget.

## **Chapter Three**

**MUNICIPAL COUNCIL**  
(Title amended, Official Gazette No.65/1995)

**Article 18. (1)** *(Renumbered from Article 18, Official Gazette No.65/1995)* The Municipal Council shall be a body of local self-government and shall be elected by the residents of the municipality under terms and according to a procedure established by statute.

**(2)** *(Added, Official Gazette No.65/1995)* A Municipal Council shall consist of the municipal councilors as elected.

**(3)** *(Added, Official Gazette No.65/1995)* A Ward Council shall consist of the ward councilors as elected.

**Article 19. (Amended, Official Gazette No.65/1995)** **(1)** The number of municipal councilors shall be determined as follows:

1. in the case of a municipality with population not exceeding 5,000 persons: 11 councilors;
2. in the case of a municipality with population not exceeding 10,000 persons: 19 councilors;
3. in the case of a municipality with population not exceeding 20,000 persons: 25 councilors;
4. in the case of a municipality with population not exceeding 30,000 persons: 29 councilors;
5. in the case of a municipality with population not exceeding 50,000 persons: 39 councilors;
6. in the case of a municipality with population not exceeding 100,000 persons: 45 councilors;
7. in the case of a municipality with population exceeding 100,000 persons: 51 councilors;
8. in the case of the Metropolitan Municipality: 61 councilors.

**(2)** The number of ward councilors shall be determined as follows:

1. in the case of a ward with population not exceeding 50,000 persons: 11 councilors;
2. in the case of a ward with population not exceeding 100,000 persons: 15 councilors;
3. in the case of a ward with population exceeding 100,000 persons: 19 councilors.

**(3)** Each municipality and ward shall be subsumed under the relevant group covered under Paragraph (1) and (2) in accordance with the size of the population therein as recorded in the civil registers kept by the municipal administration.

**Article 20. (Amended, Official Gazette No.65/1995)** **(1)** The Municipal Council shall develop the policy to promote the development of the municipality in connection with the implementation of activities covered under Article 11 herein, as well as other activities as specified by statute.

**(2)** The Ward Council shall assist the Municipal Council by addressing issues related to the everyday needs of the resident community, providing administrative services to natural persons and legal entities, and organizing public works and sanitation within the territory of the ward.

**Article 21. (Amended, Official Gazette No.65/1995)** **(1)** The Municipal Council shall exercise the following powers:

1. create standing and temporary committees and elect the members thereof;
2. determine the structure of the municipal administration and allocate a wage bill for the staff thereof from the municipal budget;
3. elect and remove the chairperson of the Municipal Council;
4. elect and remove deputy mayors upon nomination by the municipality mayor;
5. determine the amount of the mayors' salaries within the limits of the effective regulatory framework;
6. adopt the annual budget of the municipality, exercise control, and adopt the report on the implementation of the said budget;
7. determine the amount of local taxes and fees within limits prescribed by statute;
8. pass resolutions on the acquisition, management and disposition of municipal property, and determine the specific powers of the municipality mayor, the ward mayors and the mayoralty mayors;
9. pass resolutions on the establishment, transformation and dissolution of municipal-owned commercial corporations and appoint representatives of the Municipal Council in the said corporations;
10. pass resolutions on contracting of bank loans, on extending of interest-free loans, and on issuance of bonds under terms and according to a procedure established by statute;
11. pass resolutions on the preparation and approval of general and detailed urban development plans for the entire territory of the municipality or for any portion thereof;
12. adopt strategies, projections, programs and plans for development of the municipality;
13. establish requirements for the activities of natural persons and legal entities in the municipality proceeding from the environmental, historical, social and other peculiarities of the population centers, as well as from the condition of the engineering and social infrastructure;
14. pass resolutions on the establishment and termination of municipal foundations, and on management of

endowments;

15. pass resolutions on affiliation of the municipality to associations of local authorities in Bulgaria and abroad and select its representatives therein;

16. create wards and mayoralities under terms and according to a procedure established by statute;

17. propose changes in the system of political divisions affecting the territory and boundaries of the municipality;

18. pass resolutions on naming and renaming of streets, squares, parks, facilities, weekend-house zones, resorts and resort sites and other sites of municipal importance;

19. deliberate and pass resolutions on motion by Ward Councils, ward mayors and mayoralty mayors on matters lying within the competence thereof;

20. pass resolutions on the conduct of referenda and general meetings of the community on matters lying within the competence thereof;

21. approve an emblem and a seal of the municipality;

22. confer the freedom of the municipality upon Bulgarian and foreign nationals.

(2) The Municipal Council shall furthermore pass upon any other issues of local importance, which do not lie within the exclusive competence of other bodies.

(3) The Municipal Council shall adopt Rules of Organization and Procedures of the Municipal Council and the Municipal Administration, which shall regulate issues of organization and functioning of the Municipal Council and the committees thereof, of the ward councils, of the municipal administration, the affiliation of the municipality, as well as all matters expressly specified in this Act.

**Article 21A.** (*Inserted, Official Gazette No.65/1995*) (1) The Ward Council shall exercise the following powers:

1. create standing and temporary committees and elect the members thereof;

2. determine the structure of the municipal administration for the ward within the overall structure of the municipality;

3. pass resolutions on programs and plans for implementation of the municipal policy in the part thereof pertaining to the ward;

4. pass resolutions on the management of any municipal property as may be allocated thereto by the Municipal Council;

5. exercise control over the disbursement of resources from the municipal budget in the part thereof pertaining to the ward.

(2) The Ward Council shall furthermore perform any other functions as may be entrusted thereto by the Rules under Article 21 (3) herein.

**Article 22.** (1) (*Supplemented, Official Gazette No.65/1995*) The municipal council shall adopt regulations, ordinances, resolutions and directives on matters of local importance, which shall be transmitted to the [competent] Regional Governor within seven days.

(2) (*Renumbered from Paragraph (3), Official Gazette No.65/1995; amended, No.33/1998*) Violation of ordinances shall be punishable by a fine not exceeding 500,000 leva, or in the case of repeated violation, by a fine and suspension from the practice of a specified occupation or activity.

(3) (*Renumbered from Paragraph (4), Official Gazette No.65/1995*) Penalty decrees shall be issued by the mayor or a deputy mayor in pursuance of a written statement drawn up by officers specified in the ordinance.

(4) (*Renumbered from Paragraph (5), Official Gazette No.65/1995*) Administrative penalty proceedings shall follow the procedure established by the Administrative Infractions and Penalties Act.

**Article 23.** (*Amended, Official Gazette No.65/1995*) (1) Any Municipal Council and Ward Council shall be called to a first meeting by the [competent] Regional Governor within fourteen days after the election of the said council.

(2) The Municipal Council shall be called to a meeting by the chairperson thereof:

1. on his or her own initiative;

2. on the requisition of one-third of the municipal councilors;

3. on the requisition of one-fifth of the voters in the municipality;

4. on the requisition of the [competent] Regional Governor.

(3) The Ward Council shall be called to a meeting by the chairperson thereof:

1. on his or her own initiative;

2. on the requisition of one-third of the ward councilors;

3. on the requisition of one-fifth of the voters in the ward;

4. on the requisition of the municipality mayor.

(4) In the instances of Items 2, 3 and 4 of Paragraphs (2) and (3), the chairperson shall be obligated to appoint a date

for a meeting within seven days after presentation of the requisition. Upon expiration of this time limit, the meeting shall be called by the requisitionist or by the [competent] Regional Governor.

**Article 24.** (1) The Municipal Council and the Ward Council shall elect a chairperson from amongst the members thereof. The voting shall be held by secret ballot. To be declared elected, a nominee must receive more than one half of the votes cast by the total number of councilors.

(2) Upon termination of the powers of the chairperson prior to the expiration of the term of office thereof, as well as when the performance of the said chairperson is on the agenda, the meeting shall be chaired by another expressly elected councilor.

**Article 25.** (Amended, Official Gazette No.65/1995) The chairperson of the Council shall perform the following functions:

1. call the Council to a meeting;
2. direct the preparations for the meetings of the Council;
3. preside over the meetings of the Council;
4. coordinate the work of the standing committees;
5. assist the councilors in the activities thereof;
6. represent the Council before outside individuals and organizations.

**Article 26.** (Amended, Official Gazette No.65/1995) The Municipal Council may fix a remuneration of the chairperson depending on the size of the municipality and the volume of work.

**Article 27.** (Amended, Official Gazette No.65/1995) (1) The Municipal Council shall be called to a meeting at least six times each year.

(2) For the valid transaction of business at any meeting of the Municipal Council, not less than one-half of the total number of councilors shall have to be present thereat.

(3) The Municipal and Ward Council shall pass resolutions by open ballot, by a majority of more than one-half of the municipal councilors attending. Alternatively, the Council may resolve to vote by secret ballot.

(4) Any resolution of the Municipal Council on a matter covered under Items 1, 2, 3, 4, 6, 7, 8, 9, 10, 16, 17 and 20 of Article 21 (1) herein shall require a majority of more than one-half of the total number of municipal councilors.

(5) Any resolution shall be made public to the community.

**Article 28.** (Supplemented, Official Gazette No.65/1995) The meetings of any Municipal Council and Ward Council shall be held in public. In exceptional cases, the Council may resolve to meet behind closed doors.

**Article 29.** (Amended, Official Gazette No.65/1995) Minutes shall be taken of the proceedings at each meeting of a Municipal Council or a Ward Council. Any councilor shall have the right to review the minutes and to request alterations therein within seven days after the date of the meeting. Should a controversy arise, the matter shall be settled at the next following meeting.

**Article 29A.** (Inserted, Official Gazette No.65/1995) The Municipal Council shall have no full-time staff of its own. The operation of the said Council shall be assisted and supported by the municipal administration.

## **Chapter Four**

### **MUNICIPAL COUNCILOR**

**Article 30.** (1) The credentials of any municipal councilor shall arise as from the day of election thereof and shall be extinguished by the expiration of the term of office of the Municipal Council.

(2) The legitimacy of the election of any municipal councilor may be challenged before the [competent] district court within fourteen days after the day of the said election.

(3) The credentials of any councilor may be terminated prior to the expiration of the term of office thereof:

1. upon legal incapacitation;
2. where an effective custodial sentence for a premeditated offense at public law has been passed on any such councilor;

3. (Amended, Official Gazette No.65/1995) upon submission of resignation to the Municipal Council;

4. (Amended, Official Gazette No.65/1995) upon election of any such councilor to the office of mayor or deputy

mayor, or upon appointment of the said councilor to a full-time position in the respective municipal administration;

**5.** (*Amended, Official Gazette No.65/1995*) upon sustained inability or systematic dereliction of duties in the course of more than six months, by resolution of the Municipal Council passed by a majority of more than one-half of the total number of councilors;

**6.** upon death.

**(4)** (*Amended, Official Gazette No.65/1995*) Any resolution under Item 3 of Paragraph (3) shall be appealable before the [competent] district court within fourteen days.

**(5)** (*Added, Official Gazette No.65/1995*) Any pre-term termination of credentials under Items 1, 2, 3, 4 and 6 of Paragraph (3) shall be declared to the Municipal Council by the chairperson thereof.

**Article 31.** (*Repealed, Official Gazette No.65/1995*).

**Article 32. (1)** At the first meeting [of the Municipal Council] each municipal councilor shall take the following oath of office:

"I swear in the name of the Republic of Bulgaria to abide by the Constitution and the laws of the land, and to be guided in all my actions by the interests of the residents of the \_\_\_\_\_ Municipality, and to work for their prosperity."

**(2)** (*Amended, Official Gazette No.65/1995*) Any municipal councilor, who fails to take an oath without reasonable excuse and to sign an oath paper within forty-five days after the declaration of the decision of the electoral commission, shall forfeit the mandate thereof.

**(3)** (*Added, Official Gazette No.65/1995*) Any resolution of the Municipal Council under Paragraph (2) shall be appealable within fourteen days before the [competent] district court (the Sofia City Court in the case of Sofia), which shall consider and rule on any such appeal within three days. The ruling of the court shall be final.

**Article 33. (1)** (*Renumbered from Article 33 and amended, Official Gazette No.65/1995*) Any municipal councilor shall have the right to:

- 1.** be elected to any standing and temporary committee of the Council;
- 2.** move any matters within the competence of the Municipal Council for inclusion on the agenda of the said Council, and introduce draft resolutions;
- 3.** participate in the deliberations and decision-making on any matter within the competence of the Council;
- 4.** address questions to the mayor. Any such questions shall be taken orally or in writing, unless the Council resolves otherwise.

**(2)** (*Added, Official Gazette No.65/1995*) Any state bodies, any business and public organizations shall be obligated to cooperate with any municipal councilor, as well as provide thereto any information and documents as he or she may need in connection with the activities thereof in the capacity of councilor, unless the said materials and information constitute a state or official secret by law.

**Article 34. (1)** Any municipal councilor shall be granted a special leave of absence for the time during which he or she is engaged in connection with the activities thereof in the capacity of councilor according to a procedure established by the Rules of Procedure of the Council.

**(2)** (*Supplemented, Official Gazette No.65/1995*) Any municipal councilor shall receive the full amount of labor remuneration thereof for the time during which he or she has attended meetings of the Council or of a standing committee. The employer of any such councilor shall be reimbursed from the municipal budget for the expenses so incurred. Any municipal councilor, who has not entered into an employment relationship with any employer, shall receive compensation of a type and amount as shall be fixed by the Rules under Article 21 (3) herein.

**(3)** Any traveling and other expenses incurred by any municipal councilor in connection with the work thereof on the Council shall be borne by the municipal budget.

**Article 35.** (*Amended, Official Gazette No.65/1995*) An employment relationship with any municipal councilor may not be terminated during the term of office thereof in the instances covered under Items 2, 3 and 4 of Article 328 (1) and Article 328A of the Labor Code.

**Article 36.** Any municipal councilor shall be obligated:

- 1.** to attend meetings of the Municipal Council and of the standing committees whereto he or she has been elected, as well as to participate in decision-making on the matters under consideration;
- 2.** to maintain contacts with the constituents and to keep them informed of the activities and resolutions of the



Municipal Council.

**Article 37.** No municipal councilor may participate in decision-making on matters which affect his or her personal interests or the interests of his or her spouse or any lineal or collateral relative thereof up to the fourth degree of consanguinity.

**Article 37A.** (*Inserted, Official Gazette No.65/1995*) The provisions of this Chapter shall furthermore apply to ward councilors.

**Article 37B.** (*Inserted, Official Gazette No.65/1995*) By resolution of the general meeting of the community in mayoralities, mayoralty councilors may be elected under the terms and according to the procedure established by the Rules under Article 21 (3) herein. The said councilors shall assist the [mayorality] mayor in the performance of the functions thereof covered under Article 46 herein.

## **Chapter Five MAYORS AND MUNICIPAL ADMINISTRATION**

**Article 38. (1)** (*Amended, Official Gazette No.65/1995*) The municipality mayor shall be an officer of the executive branch of government in the municipality.

**(2)** (*Inserted, Official Gazette No.65/1995*) Any municipality mayor, as well as any ward mayor and any mayoralty mayor, shall be elected by direct popular vote under terms and according to a procedure established by statute.

**(3)** (*Renumbered from Paragraph (2), Official Gazette No.65 of 1995*) At the first meeting of the newly elected Municipal Council, the mayor shall take the oath of office under Article 32 (1) of this Act.

**Article 39. (1)** (*Renumbered from Article 39 and amended, Official Gazette No.65/1995*) Upon nomination by the mayor, the Municipal Council shall elect one or more deputy mayors by secret ballot.

**(2)** (*Added, Official Gazette No.65/1995*) Should the Municipal Council fail to elect deputy mayors even after a second nomination by the mayor, upon the next nomination any nominees who receive more than one-half plus one of the votes of the councilors present and voting shall be declared elected.

**(3)** (*Added, Official Gazette No.65/1995*) Upon pre-term termination of the credentials of the mayor or upon sustained inability to perform the functions thereof for more than one month, should there be no deputy mayor, such shall be elected upon nomination by the councilors.

**Article 40.** (*Amended, Official Gazette No.65/1995*) The functions of a mayor of the population center which is the administrative center of the municipality shall be performed by the municipality mayor.

**Article 41. (1)** (*Amended, Official Gazette No.65/1995*) To be eligible for the office of municipality mayor or deputy mayor, a candidate must have attained a secondary or higher education. During the term of office thereof, no mayor or deputy mayor may participate in governing bodies of any political parties or carry on business for the purposes of the Commercial Code.

**(2)** (*Amended, Official Gazette No.65/1995*) The municipality mayor and the ward mayor shall attend the meetings of the respective Municipal Council and Ward Council in a non-voting capacity.

**(3)** (*Added, Official Gazette No.65/1995*) The ward mayors and the mayoralty mayors may attend the meetings of the [respective] Municipal Council in a non-voting capacity. The said mayors shall be mandatorily heard upon deliberation of any matters affecting the relevant mayoralities or wards.

**Article 42.** (*Amended, Official Gazette No.65/1995*) **(1)** The credentials of any mayor may be terminated prior to the expiration of the term of office thereof:

- 1.** upon submission of resignation to the Municipal Council;
- 2.** (*Amended, Official Gazette No.90/1996*) upon sustained inability or systematic dereliction of the functions thereof in the course of more than six months, by resolution of the Municipal Council passed by a majority of not less than two-thirds of the total number of municipal councilors. Should it be impossible to pass a resolution according to this procedure, the Municipal Council may resolve by a majority of not less than two-thirds of the total number of councilors on the conduct of a referendum on termination of the credentials of the mayor;
- 3.** upon the entry into force of a custodial sentence [passed on the mayor] for a premeditated offense;
- 4.** upon death

(2) Upon pre-term termination of the credentials of any municipality mayor, by resolution of the Municipal Council the functions thereof shall be assumed by a deputy mayor until the conduct of elections.

(3) Upon termination of the credentials of any ward mayor or mayoralty mayor, by resolution of the Municipal Council there shall be appointed a *locum tenens* until the conduct of elections.

**Article 43. (1)** The municipality mayor shall appoint a municipality secretary by an open-ended contract of employment.

(2) (*Amended, Official Gazette No.65/1995*) To be eligible for the position of municipality secretary, a person must hold a university degree. The limitations covered under the second sentence of Article 41 (1) herein shall apply thereto.

(3) (*Amended, Official Gazette No.65/1995*) The municipality secretary shall have the following functions and responsibilities:

1. organize the operation of the municipal administration;
2. assume responsibility for the working conditions of the municipality employees and for logistical support of the services;
3. organize record-keeping, the document flow in the municipality, and the municipal archives;
4. assume responsibility for the operation of the civil registration and administrative services departments;
5. assume responsibility for the maintenance of the voter registry in an updated condition;
6. monitor the drafting and publication of the acts of the municipality;
7. assume responsibility for processing of citizens' complaints and suggestions;
8. prepare and organize local referenda.

**Article 44. (1)** The municipality mayor shall perform the following functions:

1. manage the overall executive activities of the municipality;
  2. provide guidance and coordination to the operation of the specialized executive bodies;
  3. (*Amended, Official Gazette No.65/1995*) appoint and remove from office the heads and the employees in the municipal administration, with the exception of such covered under Item 4 of Article 46 (1) herein, and take disciplinary action as provided by law;
  4. (*Amended, Official Gazette No.65/1995*) assume responsibility for the maintenance of public order and, in order to ensure it, may issue written orders binding on the chiefs of the relevant police departments;
  5. organize the implementation of the municipal budget;
  6. organize the implementation of long-term programs;
  7. (*Supplemented, Official Gazette No.65/1995*) organize the implementation of the resolutions of the Municipal Council and report back to the said Council on the said activity;
  8. organize the fulfillment of tasks proceeding from the acts of statutory legislation, the acts issued by the President of the Republic and by the Council of Ministers;
  9. (*Amended, Official Gazette No.65/1995*) delegate performance of functions thereof to the mayoralty mayors and ward mayors, coordinate and exercise control over the expediency and lawfulness of performance. The mayor shall exercise control over the lawfulness of the acts issued and actions taken by [ward or mayoralty] mayors in the exercise of the powers thereof covered under Article 46 (1) herein;
  10. maintain liaison with the political parties, public organizations and movements, as well as with other bodies of local self-government in Bulgaria and abroad;
  11. (*Added, Official Gazette No.65/1995*) organize and carry out activities for protection of the community against natural disasters and industrial accidents;
  12. (*Added, Official Gazette No.65/1995*) sign the general and detailed urban-development plans as approved by the Municipal Council, organize the implementation and application thereof, and approve amendments and supplements thereto;
  13. (*Added, Official Gazette No.65/1995*) perform the functions of a civil registrar. The mayor may delegate the said functions by written order to officers of the municipal administration;
  14. (*Added, Official Gazette No.65/1995*) represent the municipality before individuals and legal entities and before the courts of law;
  15. (*Added, Official Gazette No.65/1995*) ensure logistical support of the Municipal Council.
- (2) In exercise of the powers vested therein, the municipality mayor shall issue orders.
- (3) (*Amended, Official Gazette No.65/1995*) The orders under Item 4 of Paragraph (1) shall be appealable by the chiefs of the relevant police departments before the [competent] Regional Governor within three days. An appeal shall not suspend execution. The orders of the Regional Governor shall be coordinated with the Minister of the Interior and shall be unappealable.

**(4)** *(Added, Official Gazette No.65/1995)* In the instances specified by statute, the mayoralty mayors shall furthermore perform any other functions as may be entrusted thereto by the state bodies.

**Article 45.** *(Supplemented, Official Gazette No.65/1995)* **(1)** The Municipal Council may overrule any act of the mayor performed in violation of resolutions passed by the Council in pursuance of Article 21 herein. The said overruling shall be effected at the next following meeting but not later than two months after the issuing of the act.

**(2)** The municipality mayor may challenge any resolution of the Municipal Council which he or she deems to be in conflict with the interests of the municipality or in violation of the laws. Any such challenge must be presented in writing within seven days and shall have a suspensive effect. If upon the second deliberation the Municipal Council confirms the original resolution thereof, the mayor shall be bound either to implement the said resolution or, if he or she has reason to believe that the said resolution contravenes the law, to notify the court. Upon second deliberation, passage of the resolution shall require a majority of more than one half of the total number of councilors.

**Article 46.** *(Amended, Official Gazette No.65/1995)* **(1)** The ward mayor or mayoralty mayor shall perform the following functions:

1. implement the municipal budget in the part thereof pertaining to the respective ward or mayoralty;
2. organize the conduct of public works, supply services and other undertakings;
3. assume responsibility for the management of any items of municipal property as designated by the Municipal Council;
4. appoint and remove from office such employees of the municipal administration as assist him or her in his or her activities, in accordance with the organizational structure approved by the Municipal Council;
5. take action for improvement and rehabilitation of the environment and organize policing of field estates;
6. keep the population registers and the civil registers;
7. ensure the provision of administrative services to natural persons and legal entities;
8. *(Supplemented, Official Gazette No.122/1997)* ensure the maintenance of public order; exercise powers under Articles 68, 70, 73, 74, 76, 78 and 80 of the Ministry of the Interior Act until arrival of a police officer;
9. organize and direct activities for protection of the community against natural disasters and industrial accidents;
10. represent the ward or mayoralty before the community, before public and political organizations, and before other wards and mayoralties.

**(2)** Ward mayors and mayoralty mayors may furthermore be entrusted with such other functions as shall be provided by statute or another statutory instrument, or by the Rules under Article 21 (1) herein proceeding from the specific peculiarities of the municipality, the wards, or the mayoralties.

**Article 47.** Employees of the municipal administration shall enjoy the legal status of civil servants.

## **Chapter Six**

### **STANDING COMMITTEES OF THE MUNICIPAL COUNCIL**

**Article 48.** The Municipal Council shall elect from amongst the councilors thereof standing and temporary committees, which may also include experts who are not councilors.

**Article 49. (1)** The standing committees shall perform the following functions:

1. study the needs of the community in the relevant field, and propose solutions to the problems;
2. assist the Municipal Council in the preparation of resolutions on matters introduced for deliberation and determination;
3. exercise control over the implementation of the resolutions of the Municipal Council.

**(2)** For the purposes of the work thereof, the standing committees may recruit outside experts and consultants.

**Article 50.** The standing committees shall adopt motions and recommendations on the matters under consideration and shall transmit the said motions and recommendations to the Municipal Council and to the respective persons concerned.

## **Chapter Seven**

### **MUNICIPAL PROPERTY AND FINANCES**

**Article 51. (1)** Each municipality shall have the right to own property whereof the scope and manner of acquisition

shall be established by statute.

(2) *(Amended, Official Gazette No.65/1995; repealed, No.33/1998).*

(3) *(Amended, Official Gazette No.65/1995)* Each municipality may carry on business, may establish municipal-owned enterprises, and may participate in forms of joint business activity under terms and according to a procedure established by statute.

(4) *(Amended, Official Gazette No.65/1995)* Each municipality may invest in business real estate and inactive cash resources with the exception of the ad hoc grants from the national budget.

(5) *(Amended, Official Gazette No.65/1995)* A municipality may participate solely in such forms of business where the liability thereof shall be limited to the amount of participating interest thereof.

**Article 52. (1)** Each Municipal Council shall prepare a self-contained budget of the municipality, separate from the executive budget, on the basis of revenues from own sources and grants apportioned by the State among municipalities according to criteria established by statute.

(2) *(Repealed, Official Gazette No.33/1998).*

(3) *(Repealed, Official Gazette No.33/1998).*

(4) Each municipality shall have the right to issue bonds.

(5) No municipality may contract credit to defray general expenses (payment of wages and salaries, running costs and other such).

(6) Interest on credit extended to the municipality shall be paid from the current budget thereof.

**Article 53.** *(Amended, Official Gazette No.65/1995; repealed, No.33/1998).*

**Article 54. (1)** The municipality shall incur expenditures to satisfy local needs as well as needs which may arise in the performance of functions of state.

(2) Any expenditures on the performance of functions of state shall be reimbursed from the executive budget.

(3) The Municipal Council may provide financial assistance to municipal-owned and other enterprises whereof the operations are related to meeting the needs of the community.

**Article 55.** *(Amended, Official Gazette No.65/1995; repealed, No.33/1998).*

**Article 56.** *(Amended, Official Gazette No.65/1995; repealed, No.33/1998).*

**Article 57.** *(Amended, Official Gazette No.65/1995; repealed, No.33/1998).*

**Article 58.** *(Repealed, Official Gazette No.33/1998).*

## **Chapter Eight**

### **DISTRICT**

*(Chapter repealed, Official Gazette No.65/1995)*

**Articles 59 - 67.** *(Repealed, Official Gazette No.65/1995).*

## **Chapter Nine**

### **REGION**

**Article 68.** The region shall be a political unit wherein state authority shall be decentralized with a view to implementing an effective regional policy.

**Article 69.** *(Amended, Official Gazette No.65/1995)* (1) Each region shall be governed by a Regional Governor, assisted by regional vice governors and a regional administration, whereof the maintenance shall be financed by the national budget.

(2) Each Regional Governor shall be appointed by the Council of Ministers.

(3) Each regional vice governor shall be appointed by the Prime Minister.

(4) No Regional Governor or regional vice governor may participate in governing bodies of any political parties or carry on business for the purposes of the Commercial Code during the term of office thereof.

**Article 70.** *(Repealed, Official Gazette No.24/1995).*

**Article 71.** *(Amended, Official Gazette No.65/1995)* The Regional Governor shall perform the following functions:

1. implement the state policy in the region, assume responsibility for the implementation of the reform in territorial administration, coordinate the operation of the state bodies within the territory of the region and the interaction of the said bodies with the local authorities;
2. assume responsibility for reconciliation of national and local interests, organize the elaboration and implementation of regional strategies and programs for regional development, interact with the bodies of local self-government and the local administration;
3. assume responsibility for the conservation and protection of state property within the territory of the region;
4. ensure observance of the law within the territory of the region and exercise administrative control, monitor compliance with the acts issued by the President of the Republic of Bulgaria and by the Council of Ministers;
5. exercise control over the lawfulness of the acts issued and actions taken by the bodies of local self-government and local administration;
6. control the lawfulness of the acts issued and actions taken by state bodies, institutions of state, state organizations and state-owned enterprises within the territory of the region;
7. organize the preparation of the community for defense and mobilization, direct protection of the community in the event of natural disasters and industrial accidents, and assume responsibility for the keeping of the peace;

**Article 72. (1)** *(Amended, Official Gazette No.65/1995)* Acting within the powers therein vested, the Regional Governor shall issue orders.

**(2)** *(Amended, Official Gazette No.65/1995)* The Regional Governor may suspend the implementation of any unlawful act issued by a Municipal Council and refer any such act to the competent district court within one month after the date of receipt. Within the same time limit, the Regional Governor may rescind any unlawful act issued by a municipality mayor and by the bodies covered under Article 71 (6) herein, should no specific procedure be provided for the rescission of such acts.

**(3)** Any order issued by the Regional Governor under the foregoing paragraphs shall be appealable before the competent court.

**Article 73.** *(Repealed, Official Gazette No.65/1995).*

## **Chapter Ten**

### **CHANGES IN THE SYSTEM OF POLITICAL DIVISIONS**

*(Chapter Repealed, Official Gazette No.65/1995)*

## **Chapter Eleven**

### **TRANSITIONAL AND FINAL PROVISIONS**

**Clause 1.** This Act shall enter into force on the date of promulgation thereof in the *Official Gazette*.

**Clause 2.** *(Repealed, Official Gazette No.65/1995).*

**Clause 3.** *(Repealed, Official Gazette No.65/1995).*

**Clause 4.** *(Repealed, Official Gazette No.65/1995).*

**Clause 5.** This Act supersedes:

1. The People's Councils Act (promulgated in *Transactions of the Presidium of the National Assembly* No.95 of 1951; amended in No.60 and 68 of 1953, No.100 of 1955, No.3, 37 and 54 of 1956, No.30, 71 and 74 of 1957, No.90 of 1958, No.22 of 1959; *Official Gazette* No.47 of 1964, No.54 of 1969, No.35 of 1972, No.32 of 1977, No.97 of 1978, No.52 and 65 of 1980, No.97 of 1987, No.72 and 88 of 1990).
2. The Regulations on Ordinances under Article 12A of the People's Councils Act (promulgated in the *Official Gazette* No.3 of 1965; amended, No.39 of 1978).
3. The Ordinance on Application of Article 41 of the People's Councils Act Relating to Payment of Labor Remuneration and Traveling Allowances to Councilors and Members of Standing Committees (promulgated in the *Official Gazette* No.65 of 1987; amended, No.45 of 1989).

4. The Creation of Regions as Political Divisions Act (promulgated in the *Official Gazette* No.65 of 1987; amended, No.45 of 1989).

5. The National Representatives and People's Councilors Act in respect of the legal status of municipal councilors in the part thereof concerning municipal councilors (promulgated in the *Official Gazette* No.32 of 1977; amended, No.72 of 1981, No.27 and 87 of 1986).

6. The Decree on Constituents' Mandates ([promulgated in the] *Official Gazette* No.12 of 1978).

7. Decree No.296 on the Powers of Ward People's Councils Covered under Article 5 (4) of the People's Councils Act ([promulgated in the] *Official Gazette* No.19 of 1979).

**Clause 6.** Amendments to other acts:

1. In the Ownership Act (promulgated in *Transactions of the Presidium of the National Assembly* No.92 of 1951; amended, No.12 of 1958, No.90 of 1960; *Official Gazette* No.99 of 1963, No.26 and 27 of 1973, No.54 and 87 of 1974, No.55 of 1978, No.36 of 1979, No.19 of 1985, No.14 and 91 of 1988, No.38 of 1989 and No.31 of 1990), Article 6 shall be amended to read as follows:-

"6. The State shall own the property declared by the Constitution and the laws to be exclusive state property, as well as any property which the State shall acquire.

Municipalities shall own any property which:

1. has been granted by a statute in ownership of municipalities, or has been incorporated into the statutory capital of municipal-owned firms;

2. has been acquired in consideration of resources from the municipal budget or of resources on an off-budget account of the municipality;

3. has been built by voluntary labor and on cash resources contributed by the community;

4. has been acquired on loans contracted and redeemed by the municipality;

5. has been donated or bequeathed to the Municipal Council or to an individual population center;

6. has been restored through restitution;

7. has been ceded gratuitously by the State;

8. has been transferred in ownership of the municipalities in accordance with the Transitional Provisions of this Act."

2. In the Ministry of the Interior Act ([promulgated in the] *Official Gazette* No.57 of 1991), there shall be inserted the following new article:-

"**Article 13A.** The relationships of the metropolitan and the regional directorates of the Ministry of the Interior and the precinct police departments with the Regional Governors, the District Governors and the mayors shall be regulated by the Local Self-Government and Local Administration Act and the Police Act."

**Clause 7.(1)** (*Renumbered from Clause 7 and amended, Official Gazette No.49/1995*) By the entry of this Act into force, the following state property shall pass into ownership of the municipalities:

1. the water sources, including ground and mineral waters, which are used solely by the municipality concerned, together with the water-pumping facilities and the transmission networks and facilities;

2. dams, lakes and the beaches thereto appertaining, quarries for extraction of aggregate and other materials of local importance;

3. undeveloped land plots and real estate within the territory of population centers, intended for housing construction, public, public-works and supply-service undertakings, acquired through alienation, with the exception of such as may be subject to restitution to the previous owners thereof;

4. the local roads, the streets, boulevards, squares, public parking lots in population centers, and parkland for public use;

5. housing projects built according to the procedure established by Article 117 of the Regional and Urban Planning Act, for temporary replacement housing or for social welfare undertakings, including rental to socially disadvantaged families;

6. the facilities of the municipal infrastructure of local importance, intended to satisfy the administrative needs of the municipalities, as well as for health, educational, cultural, distributive-trade, supply-service, sports or public-utility services;

7. the networks and facilities of the engineering infrastructure of the transport, energy, water-supply, sewerage, communications and engineering protection system, which service solely the territory of the municipality concerned and are not incorporated into the statutory capital of commercial corporations.

(2) (*Added, Official Gazette No.49 of 1995*) No property covered under Paragraph (1), which is incorporated into the capital, the statutory capital, or is booked in the balance sheet of any state-owned commercial corporation, firm or enterprise, shall pass into ownership of the municipalities.

**Clause 8.** The Chairman of the Council of Ministers shall be entrusted with the implementation of this Act.

**Act to Amend and Supplement the Local Self-Government and Local Administration Act (promulgated in the  
*Official Gazette* No.65 of July 21, 1995)**

## **Transitional and Final Provisions**

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**Clause 56.** The full-time staff positions at any Municipal Council existing upon the entry of this Act into force shall be eliminated by the termination of the credentials of the municipal councils elected on the 13th day of October 1991.



## APPENDIX E

### Items of Income Under the Uniform Budget Classification

00 -	Amounts carried forward (cash available at opening of the year)	* * *
01 -	Value Added Tax	
02 -	Excise Tax	
03 -		* * *
04 -	Profits Tax from Non-Financial Enterprises	
05 -	Profits Tax from Financial Institutions	
06 -	Profits Tax from Non-Profit Organizations	
07 -	Profits Tax from Budget Enterprises	
08 -	Municipal Tax from Non-Financial Enterprises	
09 -	Municipal Tax from Financial Institutions	
10 -	Municipal Tax from Non-Profit Organizations	
11 -	Municipal Tax from Budget Enterprises	
12 -	Personal Income Tax - Levied on Income Originating from Employment Relationships	
13 -	Personal Income Tax - from Sole Proprietors, Free Professions, Civil Contracts, etc.	
14 -	Personal Income Tax for Individuals, Practicing Taxi Driving or Crafts	
15 -	Tax on the Dividends and Income of Local Legal Persons and Foreign Persons	
16 -	Tax on the Dividends and Income of Budget Enterprises	
17 -		* * *
18 -	Tax on the Wage Increase Fund	
19 -		* * *
20 -		* * *
21 -	Real Estate Tax	
22 -	Inheritance Tax	
23 -	Fees for Entitlement to Use of Motor Vehicles	
24 -	Waste Disposal Fee	
25 -	Fees for Receipt of Property through Donation and against Payment	
26 -		* * *
27 -	Export Duties and Customs Fees	
28 -	Import Duties and Customs Fees	
29 -	Employer Contributions for Social Security of Workers and Employees and Contributions for the Retraining and Unemployment Fund	
30 -	Social Security Contributions by Workers and Employees	
31 -	Social Security Contributions by Self-Employed and Non-Employed Persons	
32 -	Reimbursed Amounts for Working Pensioners	
33 -	Required Deductions Under Extra-Budget Accounts and Funds	
34 -	Other Taxes	
35 -	State, Municipal and Court Fees	
36 -		* * *
37 -	Deductions from Income of State (Municipal) Enterprises and Institutions (BULGARGAZ, State Lottery)	
38 -	Surplus of Income over Expenditure of the Bulgarian National Bank	
39 -		* * *
40 -	Net Income from the Sale of Services, Goods and Products	
41 -	Income Obtained from Rented Property	
42 -	Income Obtained from Land Lease	
43 -	Interest Income from Current Bank Accounts	
44 -	Interest Income from Bank Time Deposits	
45 -	Interest Income from Loans Granted Domestically and Abroad	
46 -	Interest Income and Discounts from Government and Municipal Securities	

47 -	Other Interest Income
48 -	Dividends
49 -	Seized Funds and Income from the Sale of Seized Goods
50 -	Fines, Sanctions, Damages, Interest in Arrears, Compensations and Penalty Charges for Deficits
51 -	Donations, Aid and Other Gratuitous Sums Received within the Country
52 -	Donations, Aid and Other Gratuitous Sums Received from Abroad
53 -	* * *
54 -	Income from the Sale of State Reserves
55 -	Income from the Sale of Long-Term Tangible Assets
56 -	Income from the Sale of Land
57 -	Income from the Sales of Intangible Assets and Concessions
58 -	Sales of Financial Assets - Shares, Equities, Bonds
59 -	Privatization Income - Sales of Independent Parts of Enterprises
60 -	Privatization Income - Sales of Shares and Equities
61 -	Government and Municipal Securities Traded on the Secondary Market
62 -	Payments Received for Government and Municipal Securities
63 -	* * *
64 -	Premiums above the Nominal from Issues of Securities
65 -	Exchange Rate Gains from Foreign Currency Transactions
66 -	VAT Collected and Paid-in
67 -	Collected and Paid-in Other Taxes, Fees and Contributions on Sales
68 -	Installments Paid by Enterprises for the Principal of a Rescheduled Sovereign Debt
69 -	Interest Paid by Enterprises for a Rescheduled Sovereign Debt
70 -	Other Income
71 -	* * *
72 -	Credits Received from the BNB
73 -	Long-term Credits Received from Other Local Banks
74 -	Short-term Credits Received from Other Local Banks
75 -	Credits Received From Abroad
76 -	Payments Received for Credits Granted From Abroad
77 -	Issues of Government (Municipal) Long-term Securities
78 -	Issues of Government (Municipal) Short-term Securities
79 -	Other Financing
80 -	* * *
81 -	Subsidies and Transfers Received from the Central Government Budget
82 -	Installments/Transfers from Budget Accounts to the Central Government Budget
83 -	Installments/Transfers from Extra-Budget Accounts to the Central Government Budget
84 -	Transfers Among Budget Accounts
85 -	Transfers Among Budget and Extra-Budget Accounts
86 -	Transfers Among Extra-Budget Accounts
87 -	Transfers from /to Current Accounts
88 -	Temporary Non-Interest Loans from (to) the Central Government Budget
89 -	Temporary Non-Interest Loans Among (to) Budget Accounts
90 -	Temporary Non-Interest Loans Among Budget and Extra-Budget Accounts
91 -	Temporary Non-Interest Loans Among (to) Extra-Budget Accounts
92 -	Temporary Non-Interest Loans from/to Current Accounts
93 -	<b>Reserved/Collected Funds from/to Extra-Budget Accounts</b>
94 -	Reserved/Collected Funds from/to Budget Accounts
95 -	Attracted Funds of Budget Enterprises
96 -	Purchase and Sale of Foreign Currency
97 -	Funds Granted (Reimbursed) Under Time Deposits
98 -	Funds Paid (Drawn) to (from) a Bank Account
99 -	Control (total cash available)

## Items of Expenditure under the Uniform Budget Classification

00 -	Funds Drawn for Cash Payments	* * *
01 -	Wages and Remuneration to Staff, Hired Under Employment Relationships	
02 -	Social Security	
03 -	Remuneration to Staff, Hired under Extra-Employment Relationships	
04 -	Food	
05 -	Medicaments	
06 -	Bedclothes and Clothing	
07 -	Business Travel	
08 -	Materials, Fuel and Energy	
09 -	Hired Services	
10 -	Current Repairs	
11 -	Expenses for Education, Research and Library Books	
12 -	Other Expenses	
13 -		* * *
14 -	State Reserves Increase	
15 -	Capital Repairs	
16 -	Acquisition of Long-Term Tangible Assets	
17 -	Acquisition of Long-Term Intangible Assets	
18 -	Acquisition of Land	
19 -		* * *
20 -	VAT Paid on Import and Refund of VAT on Inputs	
21 -	Excise Tax Paid on Import and Excise Tax Refunds	
22 -	Customs Duties and Fees Paid	
23 -	State, Municipal and Court Fees Paid	
24 -	Profits Tax Paid	
25 -	Municipal Tax Paid	
26 -	Tax Paid on the Income of Budget Enterprises	
27 -	Paid Other Taxes and Required Deductions under Extra-Budget Accounts and Funds	
28 -		* * *
29 -	Fines, Damages, Interest in Arrears, and Court Compensations	
30 -	Fund Transfers to Current Accounts for Settlement of Expenses	
31 -		* * *
32 -	Government and Municipal Securities Acquired at the Primary Market	
33 -	Government and Municipal Securities Acquired at the Secondary Market	
34 -	Shares and Equities	
35 -	Other Securities	
36 -	Stakes in Joint Enterprises, Assets and Businesses	
37 -	Fees for Membership and for Participation in Non-Commercial Organizations and Activities	
38 -		* * *
39 -	Scholarships	
40 -	Pensions	
41 -	Unemployment Benefits and Welfare	
42 -	Monthly Child-Raising Allowances	
43 -	Other Currently Provided Benefits and Welfare to Households	
44 -	Capital Transfers and Household Welfare	
45 -		* * *
46 -	Subsidies to Non-Financial Enterprises for On-Going Activities	
47 -	Capital Transfers to Non-Financial Enterprises	
48 -	Current Transfers to Financial Institutions	
49 -	Capital Transfers to Financial Institutions	
50 -	Subsidies for On-Going Activities of Non-Profit Organizations	
51 -	Capital Transfers to Non-Profit Organizations	

52 -	Assumed Payments of Debts and Loans
53 -	***
54 -	Sums Paid on behalf of/at the expense of Third Parties (+/-)
55 -	Payments under Assumed Guarantees and Surety (+/-)
56 -	Credits Granted - net ("+"funds granted / "-" principal paid)
57 -	Temporary Financial Aid - net ("+"funds granted / "-" principal paid)
58 -	***
59 -	Commissions Paid for Servicing of Issues of Securities and Other Financial Services
60 -	Interest Paid on Loans Borrowed from the BNB
61 -	Interest Paid on Loans Borrowed from Other Local Banks
62 -	Interest Paid on Issues of Government (Municipal) Securities
63 -	Discounts Paid on Issues of Government (Municipal) Securities
64 -	Interest Paid on Government (Municipal) Securities from Non-Cash Issues
65 -	Interest Paid for Used Credits from Abroad
66 -	Interest Paid to the Paris Club and the London Club
67 -	Other Interest - from Commercial Credit, from Financially-Related Rent Contracts, etc.
68 -	Clearing Settlements (+/-)
69 -	Payments for Long-Term Loans Borrowed from the BNB
70 -	Payments for Short-Term Loans Borrowed from the BNB
71 -	Payments for Long-Term Loans Borrowed from Other Local Banks
72 -	Payments for Short-Term Loans Borrowed from Other Local Banks
73 -	Payments for Long-Term Securities
74 -	Payments for Short-Term Securities
75 -	Payments for Securities from Non-Cash Issues
76 -	Payments to the Paris Club and the London Clubs
77 -	Payments for Other Foreign Loans and Debts
78 -	Other Payments
79 -	***
80 -	Temporary Non-Interest Loans Borrowed from the Central Government Budget for Extra-Budget Accounts and Funds
81 -	Temporary Non-Interest Loans Borrowed from the Central Government Budget for Special Departments
82 -	Temporary Non-Interest Loans Borrowed from the Central Government Budget for Ministries and Departments
83 -	Temporary Non-Interest Loans Borrowed from the Central Government Budget for Regional Administrations
84 -	Temporary Non-Interest Loans Borrowed from the Central Government Budget for the Municipalities
85 -	Temporary Non-Interest Loans Borrowed from the Central Government Budget for the Social Security Fund
86 -	Temporary Non-Interest Loans Borrowed from the Central Government Budget for labour and producer co-ops
87 -	Temporary Non-Interest Loans Borrowed from the Central Government Budget for the Court System
88 -	Temporary Non-Interest Loans Borrowed from the Central Government Budget for the State Higher Institutes
89 -	***
90 -	Transfers (subsidies) from the Central Government Budget to Extra-Budget Accounts and Funds
91 -	Subsidies from the Central Government Budget to Special Departments
92 -	Subsidies from the Central Government Budget to Ministries and Departments
93 -	Subsidies from the Central Government Budget to Regional Administrations
94 -	Subsidies from the Central Government Budget to Municipalities
95 -	Subsidies from the Central Government Budget to the Social Security Fund
96 -	Subsidies from the Central Government Budget to labour and producer co-ops
97 -	Subsidies from the Central Government Budget to the Court System

- 98 - Subsidies from the Central Government Budget to the State Higher Institutes
- 99 - control (total cash available)

## APPENDIX F

### NATIONAL ACCOUNTING STANDARD 16: PRESENTATION OF FINANCIAL STATEMENTS OF PUBLIC-FINANCED ORGANIZATIONS

**Annex to Council of Ministers Decree No.65 dated March 31, 1998, effective January 1, 1998. Promulgated as Supplement to the *Official Gazette*.**

National Accounting Standard 16 regulates the specific requirements to financial reporting in public-financed organizations, as well as the requirements to the contents of their annual financial statements.

**1.** Public-financed organizations organize and carry out their accounting in accordance with the requirements of the Accountancy Act, the National Chart of Accounts and the National Accounting Standards.

**2.** Public-financed organizations organize and report their budget, budgetary and off-budget accounts and funds on a cash basis in accordance with the Uniform Budget Classification.

#### **3. Definitions**

**3.1.** "Public-financed organizations" comprehend the state and municipal bodies, institutions and organizations, including the units thereto appertaining, regardless of the source and applicable form of financing according to the procedure established by the National Budget Procedures Act and the Local Self-Government and Local Administration Act.

**3.2.** "Financing" is an entity at financial law regulating the revenues and expenditures of public-financed organizations for the accounting year. The forms of financing may be budget/budgetary account, off-budget account or fund, and are applied by public-financed organizations by virtue of a statute or another statutory instrument. These forms are defined in the Supplementary Provisions of the National Budget Procedures Act.

**3.3.** "Source of financing" means the resources of the national or of the local budget and/or off-budget resources which are used by public-financed organizations to carry out their activities.

**3.4.** "Budget receipts" are the revenues of a public-financed organization which are sourced in the national budget (executive or local).

**3.5.** "Budget outlays" are the expenditures which a public-financed organization incurs for the account of budget receipts.

**3.6.** "Off-budget receipts" are the revenues of a public-financed organization which are not sourced in the national budget (executive or local).

**3.7.** "Off-budget outlays" are the expenditures which a public-financed organization incurs for the account of off-budget receipts.

**3.8.** "Cash revenues" are cash inflows in the public-financed organizations.

**3.9.** "Cash expenditures" are cash outflows in the public-financed organizations.

Peculiarities of current reporting

- 4.** The sources of non-current assets are reported as capital allocated for use.
- 5.** Acquisition of non-current assets is shown as increase of capital allocated for use.
- 6.** Write-off of non-current assets from the property of public-financed organizations, irrespective of the reason, is shown as reduction of capital allocated for use.
- 7.** Revenues are reported as budget receipts and off-budget receipts.
- 8.** Expenditures are reported as expenditures by function and as expenditures of budget resources and off-budget resources.
- 9.** Any financial and extraordinary revenues or financial and extraordinary expenditures reported at the end of the accounting period are shown as increase of budget and off-budget receipts or outlays.
- 10.** When a public-financed organization carries on business, revenues and expenditures are reported separately for each type of business activity.
  - 10.1.** Revenues from business are reported as "other sales revenues".
  - 10.2.** Expenditures on business are reported by function and then also as operating costs.
  - 10.3.** Financial and extraordinary revenues and financial and extraordinary costs are reconciled on the accounts through which revenues from this activity are reported.
  - 10.4.** At the end of the year, the accounts through which revenues from business are reported are reconciled through the accounts for budget and off-budget receipts.
- 11.** Cash revenues and expenditures of public-financed organizations are reported according to the paragraphs of the Uniform Budget Classification.

Public-financed organizations keep analytical accounts to the paragraphs with a view to providing more detailed information on cash receipts and cash outlays by type.

Financial statements of public-financed organizations

- 12.** The balance sheet of any public-financed enterprise is prepared according to the Annex to this Standard.
- 13.** Each public-financed enterprise prepares an income statement on the business carried on thereby on the basis of information from the accounts used to report this activity. The form of income statement specified by Annex 2 to the Accountancy Act is used to this end.
- 14.** The notes to the annual financial statement of public-financed organizations contain information on the non-current assets, on holdings of securities, as well as explanations needed for disclosure of the accounting policy.
- 15.** Public-financed enterprises prepare and present at the end of each quarter reports on the cash implementation of receipts and expenditures on budgetary and off-budget accounts and funds. The forms and contents of these reports shall be established by the Ministry of Finance.

Public-financed enterprises prepare an individual chart of account in accordance with the requirements of the National Chart of Accounts, reflecting the peculiarities of the current reporting of assets, liabilities, revenues, expenditures and cash operations.

**BALANCE SHEET (two-column)**

of .....

at .....

**ASSETS****LIABILITIES**

Sections, groups, items	Amount (thousands of leva)				Sections, groups, items	Amount (thousands of leva)		
	previous year		current year			previous year	current year	
		book value	adjustment	balance-sheet			book value	balance-sheet
a	1	2	3	4	a	1	2	3
A. NON-CURRENT ASSETS					A. CAPITAL ALLOCATED FOR USE			
I. Tangible					I. Capital in public-financed organizations			
1. Buildings, land, forests and perennials					II. Balances carried forward			
2. Machinery, plant and equipment					1. From budget operations			
3. Other tangible non-current assets					2. From off-budget operations			
4. Capital investments					Total Group II:			
Total Group I:					III. Reserves			
II. Intangible					TOTAL SECTION A:			
1. Computer programs					B. LONG-TERM LIABILITIES			
2. Other intangible non-current assets					I. Long-term creditors			
Total Group II:					1. Amounts payable on bank loans received			
III. Financial					2. Amounts payable on bond issues			
1. Long-term investments					3. Other long-term liabilities			
2. Long-term receivables					Total Group I:			



a	1	2	3	4	a	1	2	3
Total Group III:					II. Accruals and deferred income			
TOTAL SECTION A:					TOTAL SECTION B:			
B. CURRENT ASSETS					C. SHORT-TERM LIABILITIES			
I. Tangible current assets					I. Accounts payable			
1. Raw materials and consumables					1. Amounts payable on bank loans received			
2. Finished goods					2. Trade creditors			
3. Goods for resale					3. Tax liabilities			
4. Stocker livestock and feeder livestock					4. Amounts payable to own employees			
5. Work in progress					5. Amounts payable for social security			
6. Other tangible current assets					6. Other accounts payable			
Total Group I:					Total Group I:			
II. Accounts receivable					II. Accruals and deferred income			
1. Amounts receivable from sales					TOTAL SECTION C:			
2. Foreclosures and court awards					D. FINANCING			
3. Advances extended					I. For non-current assets			
4. Other accounts receivable					II. For current operation			
Total Group II:					TOTAL SECTION D:			
III. Short-term investments								
IV. Cash								
1. Cash in hand								
2. Cash at bank								
3. Frozen cash resources								
Total Group IV:								
V. Prepayments and accrued income								
TOTAL SECTION B:								
TOTAL ASSETS (Sections A + B)					TOTAL LIABILITIES (Sections A + B + C + D)			
C. OFF-BALANCE-SHEET ASSETS					E. OFF-BALANCE-SHEET LIABILITIES			

Date ..... Chief Accountant ..... Chief Executive Officer .....

## APPENDIX G

### REPUBLIC OF BULGARIA CHAMBER OF ACCOUNTS

#### AUDIT STATEMENT

by Donka Dimitrova, Director

Regional Division of the Chamber of Accounts, Rousse

RE: Findings of an audit on the budget performance, off-budget accounts and funds of Razgrad Municipality and measures to eliminate established violations.

Pursuant of the control measures plan of the Chamber of Accounts for 1996 an audit was conducted on the budget performance, off-budget accounts and sinking funds of the Razgrad Municipality for the period between 01.01.1996-30.09.1996.

Based on the findings of the audit, a Statement of Findings No.0361714496 was drafted and submitted on 27.01.1997. Explanations on the Statement followed within the term provided by Article 24, para 2 of the Chamber of Accounts Act.

The terms set out in Article 25 of the Chamber of Accounts Act had expired.

The Statement was endorsed at a Chamber of Accounts session under Memorandum No 29 of 23.06.1997.

The current Audit Statement has been issued to serve notice of the audit findings on Razgrad Municipality and the measures that must follow to eliminate committed violations.

Established violations are the result of non-compliance with individual provisions of the Accounting Act, Council of Ministers Decree No 73 of 1994 and Council of Ministers Decree No 215 of 1995, the Commercial Code and the Corporate Tax Act, the Municipal Property Act and the Application Regulations thereof, Council of Ministers Decree No 67, Article 27, para 2, the State Real Property Regulations.

The measures that must be undertaken to eliminate violations are as follows:

To propose to the Municipal Council to submit and deliberate at a session Section IV of the Statement of Findings issued by the Chamber of Accounts, relevant to illegitimate decisions by the Municipal Council and the illegitimate orders you have issued on those grounds No 243/15.02.1994 and 414/30.05.1996

To notify the Municipal Council at a session of the reiterative violations established in the course of the two audits conducted by the Chamber of Accounts.

To request from the Territorial State Administration Management information about amounts paid and payables to municipal companies with a view to ensuring the appropriate planning and use of municipal budget revenues, pursuant of Article 44, item 5 and Article 52 of the Local Government and Local Administration Act.

To order the civil servants in the Leasing Department to undertake steps to collect rental revenues from leased municipal property, inclusive of that leased to sports clubs pursuant of Section 13, Article 3 of the State Budget of the Republic of Bulgaria Act for 1996, Article 45 of Council of Ministers Decree No 67 and Article 36, para 1 of the Lease Relations Act.

To exercise control over the activities of the Chief Accountant to ensure strict adherence to his

duties pursuant of Article 48, para 1 of the Accounting Act, with a view to achieving reporting procedure compliance with Article 2, para 3, Article 8, para 1, item 8, article 21, para 2 of the Accounting Act.

In connection with findings in Section III, item 1.4 (p.21) of the Statement of Findings, it is necessary to exercise control over compliance with Article 8, para 3 of Council of Ministers Decree No 73 of 1994 on payment to control bodies at labor remuneration prices not exceeding 50% of accrued revenues from operations.

To exercise control over the activities of the Chief Accountant, with a view to ensuring compliance of the off-budget account and sinking fund with legal requirements for opening the latter, as well over the adoption of the status of Public Functions House and the incorporation as a business entity under Article 1 of the Commercial Code of the Oxygen Station with the Consolidated Regional Hospital. Amounts in these accounts shall be transferred as revenues to the municipal budget.

To exercise control over the chief executive officers of the Dental Laboratory with a view to recovering revenues to the municipal budget incorrectly disbursed out of the off-budget account as General Income Tax, totaling BGL 26 491.

To order the Chief Accountant to take action to observe the provisions of Article 27, para 2 of the Council of Ministers Decree No 67 of 1996, pertaining to the use of funds from the Social, Living Standards and Utilities Services Fund.

To submit a report to the Municipal Council, proposing the repeal of Ruling No 203.1 dated 11.02.1994 and to likewise monitor the termination of the contract with Vanessa Holiday Ltd. because of legal breaches.

Pursuant of Article 27, para 2 of the Chamber of Accounts Act, within one month of receipt of the current Statement, action must be taken to eliminate violations established in the course of the audit and to notify the Chamber of Accounts thereof.

Signed: D. Dimitrova

Director

Chamber of Accounts, Rousse

## APPENDIX H

### Program Description Examples—Razgrad Municipality

#### RAZGRAD MUNUCIALITY

<b>SERVICE:</b>  <u>Lighting of streets and squares</u>	<b>OBJECTIVE:</b>  Creation of conditions for safe movement at night, night vision of settlements and individual facilities - parks, gardens, monuments
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Legal Framework	
<b>Central</b>  Local Government and Local Administration Act  Regional and Urban Development Act and its Implementation Rules	<b>Local</b>  Rules of Organization and Procedure of the Municipal Administration

Municipal Administration
<b>The service is organized by</b> Head of Unit  <b>under the management of</b> Head of Construction and Utilities Department  <b>and the responsibility of</b> Deputy Mayor in charge of Economic Activities

<b>The service is provided by:</b>  National Electricity Company
--

<b>Budget</b> 1997 - BGL 177 000 000 1998 - BGL 235 000 000
---

<b>Criteria for service evaluation</b>  Number of settlements, population, number of lights installed, existing capacity
--



## RAZGRAD MUNUCIALITY

SERVICE:	OBJECTIVE
<b><u>Social Welfare Homes</u></b>	Provision of material, every-day and medical services to people accommodated at homes for lonely aged people and for disabled people over 20.

### Legal Framework

Central	Local
<p>Rules on the Provision of Social Services to Persons and families,</p> <p>Rules on the Organization and Management of Social Welfare Establishments</p>	<p>Rules of Organization and Procedure of the Municipal Administration</p>

### Municipal Administration

**The service is organized by**  
Social Welfare Homes

**under the management of**  
Regional Social Welfare Center

**and the responsibility of**  
Deputy Mayor in charge of Social Activities

#### The service is provided by:

2 Social Welfare Homes

#### Budget

1997 - BGL 133 662 000  
1998 - BGL 233 031 000  
1999 -

#### Criteria for service evaluation

Number of places,  
Utilization of capacity

## RAZGRAD MUNUCIALITY

SERVICE:	OBJECTIVE
<b><u>Management of Municipal Property</u></b>	Management and disposal of municipal property

Legal Framework	
Central	Local
Municipal Property Act and Implementation Rules, Regional and Urban Planning Act and Implementation Rules, Restitution of some Expropriated Property Act	Rules of Organization and Procedure of the Municipal Administration, decisions of the Municipal Council, Mayor's orders, Regulation No. 2 on Ownership

Municipal Administration
<b>The service is organized by</b> Municipal Property Department  <b>under the management and responsibility of</b> Deputy Mayor in charge of Finance and Economic Development

The service is provided by:
Municipal Property Department Coordination with the regional administration

Budget
1997 - no data available 1998 - no data available 1999 -

Criteria for service evaluation
Number of: Municipal property on which title deeds have been issued or revoked, issued certificates of state ownership



## RAZGRAD MUNUCIALITY

SERVICE:	OBJECTIVE
<b><u>Full-day Kindergartens</u></b>	To ensure intellectual, physical and social development and healthy way of life of children up to three-years old

Legal Framework	
Central	Local
Public Education Act and Implementation Rules, Regulations No. 3,5, Instruction No. 1	Rules of Organization and Procedure of the Municipal Administration

Municipal Administration
<b>The service is organized by</b> Head of Education Department  <b>under the management and responsibility of</b> Secretary of the Municipality

The service is provided by:	Budget
Full-day kindergartens  Coordination with the Regional Inspectorate of the Ministry of Education and Science	1997 - BGL 819 351 000 1998 - BGL 1 289 048 000 1999 -  <b>Other Financing</b>  1997 - BGL 4 300 000 1998 - BGL 6 200 000

Criteria for service evaluation
Number of: establishments, groups, children, staff with higher education, children fed

## RAZGRAD MUNUCIALITY

SERVICE:	OBJECTIVE
<u>Health Care</u> <u>Regional Dental Polyclinic</u>	Protection of public health by means of providing specialized dental care and technical dental services

### Legal Framework

Central	Local
Public Health Act and Implementation Rules, Regulation No. 1, 22, 11, Instruction No.1, Council of Ministers Decree No. 201	Internal Rules of the Dental Polyclinic Rules of Organization and Procedure of the Municipal Administration

### Municipal Administration

**The service is organized by**  
Management of the Regional Dental Polyclinic

**under the management  
and responsibility of**  
Deputy Mayor in charge of Social Activities

#### The service is provided by:

Regional Dental Polyclinic and  
competition for external suppliers of  
consumables  
Coordination with the Regional  
Health Care Center

#### Budget

1997 - BGL 218 240 000  
1998 - BGL 411 765 000  
1999 -

#### Other Financing

1997 - BGL 28 944 000  
1998 - BGL 42 000 000

#### Criteria for service evaluation

Number of:  
dental surgeries, examinations, cured teeth,  
rehabilitation, specialized orthodontic help,  
orthodontal devices made and installed,  
dental prostheses, constructions, dentists

## APPENDIX I

### Glossary

**Accounting System** - The total set of records and procedures used to record, classify, and report information on the financial status and operations of an entity.

**Accrual Basis of Accounting** - Accounting method that records revenues when they are earned (whether or not cash is received at that time) and expenditures when goods and services are received (whether or not cash disbursements are made at that time).

**Activity** - Departmental efforts contributing to the achievement of a specific set of program objectives; the smallest unit of the program budget.

**Allot** - To divide an appropriation into amounts that may be encumbered or expended during an allotment period.

**Amended Budget** - The original adopted budget plus any amendments passed as of a certain date

**Appropriation** - A legal authorization to incur obligations and to make expenditures for specific purposes.

**Assessed Valuation** - The government-set appraised valuation, less any exemptions, of real estate or other property; used as a basis for levying taxes.

**Assessment Ratio** - The ratio at which the tax rate is applied to the tax base.

**Asset** - Resources owned or held by a government that have monetary value.

**Audit** - A systematic examination of resource utilization concluding in a written report; a test of management's internal accounting controls intended to:

- Determine whether financial statements fairly present the financial position and results of operations

- Test whether transactions have been legally performed

- Identify areas for possible improvements in accounting practices and procedures

- Ascertain whether transactions have been recorded accurately and consistently

- Ascertain the stewardship of officials responsible for governmental resources.

**Available (Undesignated) Fund Balance** - Funds remaining from the prior year available for appropriation and expenditure in the current year.



**Balance Sheet** - A statement of the value of an entity's assets, liabilities, and equities as of a specified date.

**Base Budget** - Cost of continuing the existing levels of service in the current budget year.

**Beginning Balance** - The residual nonrestricted funds brought forward from the previous fiscal year (ending balance).

**Bond** - A written promise to pay (debt) a specified sum of money (principal or face value) at a specified future date (maturity date[s]) along with periodic interest paid at a specified percentage of the principal (interest rate). Bonds typically are used for long-term debt.

**Budget** - A plan of financial activity for a specified period of time (fiscal year) indicating all planned revenues and expenses for the period.

**Budgetary Control** - The control or management of a government in accordance with the approved budget to keep expenditures within the limits of available appropriations and resources.

**Budget Calendar** - The schedule of key dates in the budget preparation and adoption process.

**Budget Document** - The official written statement prepared by the budget office and supporting staff that presents the proposed budget to the legislative body.

**Budget Message** - A general discussion of the proposed budget presented in writing as a part of or supplement to the budget document. Explains principal budget issues against the background of financial experience in recent years and presents recommendations made by the chief executive and budget officer (if not the chief executive).

**Capital Assets** - Assets of significant value and having a useful life of several years; also called fixed assets.

**Capital Budget** - A plan of proposed capital expenditures and the means of financing them, usually based on the first year of the capital improvement program and typically enacted as part of the complete annual budget, which includes both operating and capital outlays.

**Capital Improvement** - Expenditures related to the acquisition, expansion, or rehabilitation of an element of the government's physical plant (infrastructure).

**Capital Improvement Program (CIP)** - A plan for capital expenditures to be incurred each year over a fixed period of several future years setting forth each capital project, identifying the expected beginning and ending date for each project, the amount to be expended in each year, and the method of financing those expenditures.

**Capital Project** - Major construction, acquisition, or renovation activities that add value to a government's physical assets or significantly increase their useful life; also called capital improvements.

**Cash Basis of Accounting** - Accounting method that record revenues when received in cash and expenditures when paid.

**Cash Flow Budget (Cash Budget)** - A projection of the cash receipts and disbursements anticipated during a given time period. Typically covers 1 year and broken down into separate projections for each month, week, and/or day during the year.

**Commodities** - Expendable items that are consumable or have a short life span (e.g., office supplies, gasoline, minor equipment, and asphalt).

**Constant or Real Money** - The presentation of monetary amounts adjusted for inflation to reflect the real purchasing power of money as compared to a certain point in time in the past.

**Contingency** - A budgetary reserve to provide for emergency or unanticipated expenditures during the fiscal year.

**Contractual Services** - Services rendered to a government by private firms, individuals, or other governmental agencies (e.g., utilities, rent, maintenance agreements, and professional consulting services).

**Cost** - The amount of money or other consideration exchanged for property, services, or an expense.

**Cost Accounting** - Accounting method that assembles and records all costs incurred to carry out a particular activity or to deliver a particular service.

**Current** - Denotes the operation of the present fiscal period, as opposed to past or future periods. Often used to refer to items likely to be used up or converted into cash within 1 year.

**Debt Service** - The cost of paying principal and interest on borrowed money according to a predetermined payment schedule.

**Debt Service Reserve** - A fund used to pay debt services of revenue bonds if the sources of the pledged revenues do not generate sufficient funds to satisfy the debt service requirements; funded in whole or in part from the proceeds of the bonds or allowed to accumulate gradually over a period of years through required payments from the pledged revenues.

**Dedicated Tax** - A tax levied to support a specific government program or purpose.

**Deficit** - The excess of expenditures over revenues during an accounting period or, in the case of proprietary funds, the excess of expense over income during an accounting period.

**Demand Deposit** - A deposit of moneys that are payable by the bank upon demand.

**Department** - A basic organizational unit of a jurisdiction that is functionally unique in its service delivery.

**Depreciation** - (1) Expiration in the service life of capital assets attributable to wear and tear, deterioration, action of the physical elements, inadequacy, or obsolescence. (2) That portion of the cost of a capital asset charged as an expense during a particular period.

**Development-Related Fees** - Fees and charges generated by building, development, and growth in a community, including building and street permits; development review fees; and zoning, platting, and subdivision fees.

**Disbursement** - The expenditure of moneys from an account.

**Employee (Fringe) Benefits** - Contributions made by a government to meet commitments or obligations for employee fringe benefits, including the government's share of social welfare and the various pension, medical, and life insurance plans.

**Encumbrance** - The commitment of appropriated funds to purchase an item or service. To set aside or commit funds for a specified future expenditure.

**Enterprise Fund** - A fund established to account for operations financed and operated in a manner similar to business enterprises where (1) the intent of the governing body is that costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges or (2) the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, and accountability of other purposes. Examples include those for the water and wastewater utility, electric utility, and aviation.

**Entitlements** - Payments to which local governmental units are entitled, pursuant to an allocation formula determined by the agency providing the moneys (usually the central government).

**Expenditure** - The payment of cash or the transfer of property or services to acquire an asset or a service or to settle a loss.

**Expense** - Charges incurred (whether paid immediately or unpaid) for operations, maintenance, interest, or other charges.

**Fees** - Charges for services based upon the cost of providing the service.

**Fiscal Policy** - A government's policies with respect to revenues, spending, and debt management related to government services, programs, and capital investment. Provides an agreed-upon set of principles for the planning and programming of government budgets and their funding.

**Fiscal Year** - A 12-month period designated as the operating year for accounting and budgeting purposes in an organization.

**Fixed Assets** - Assets intended to be held/used in the long term (e.g., land, buildings, machinery, furniture, other equipment).

**Function** - A group of related activities aimed at accomplishing a major service or regulatory program for which a government is responsible (e.g., public safety).

**Fund** - An independent fiscal and accounting entity that carries out specific activities or attains certain objectives with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities.

**Fund Balance** - The excess of revenues over expenditures during an accounting period. A negative fund balance is sometimes called a deficit

**Goal** - A general and timeless statement of broad direction, purpose, or intent based on the needs of the community.

**Grants** - A contribution by a government or other organization to support a particular function. May be classified as either operational or capital, as designated by the grantee.

**Indirect Cost** - A cost necessary for the functioning of the organization as a whole but that cannot be directly assigned to one service.

**Inflation** - The increase in cost of a standardized, representative selection of goods and services; calculated and reported by the Ministry of Finance.

**Infrastructure** - The physical assets of a government (e.g., streets, water, sewer, public buildings and parks).

**Interfund Transfers** - The movement of moneys between funds of the same governmental entity.

**Intergovernmental Revenue**- Revenue received from another government unit for a specific purpose.

**Internal Control** - A plan for purchasing, accounting, and other financial activities; provides that:

Employee duties are subdivided so that no single employee handles a financial action from beginning to end

Proper authorizations from specific responsible officials are obtained before key steps in the processing of a transaction are completed.

Records and procedures are arranged appropriately to facilitate effective control.





**Internal Service Charges** - The charges to user departments for internal services provided by another government agency, such as data processing or insurance funded from a central pool.

**Investment** - Securities and real estate purchased and held for the production of income in the form of interest, dividends, rentals, or base payments.

**Levy** - The total amount of taxes, special assessments, or charges imposed by a government.

**Liability** - Debt or other legal obligations, arising out of transactions in the past, that must be liquidated, renewed, or refunded at some future date. **Note:** This term does not include encumbrances.

**Line-Item Budget** - A budget prepared along departmental lines that focuses on what is to be bought.

**Liquidity** - The ability to convert an investment to cash promptly with risk to principal or accrued interest.

**Long-Term Debt** - Debt with a maturity of more than 1 year after the date of issuance.

**Management Plan** - The written strategy defining a department's public services and how those services will be delivered.

**Mandate** - Any responsibility, action, or procedure imposed by one sphere of government on another through constitutional, legislative, administrative, executive, or judicial action as a direct order or required as a condition of aid.

**Materials and Supplies** - Expendable materials and operating supplies necessary to conduct departmental operations.

**Maturities** - The dates on which the principal or stated values of investments or debt obligations mature and may be reclaimed.

**Modified Accrual Basis of Accounting** - Accounting method that records expenditures at the time liabilities are incurred **except** for accrued interest on general long-term debt and revenues when received in cash **except** for material and/or available revenues that should be accrued to reflect properly the taxes levied and revenue earned.

**National Accounting Standards** - Uniform minimum standards for financial accounting and recording, encompassing the conventions, rules, and procedures that define accepted accounting principles

**Objective** - Something to be accomplished in specific, well-defined, and measurable terms and that is achievable within a specified time frame.

**Object of Expenditure** - An expenditure classification that refers to the lowest and most detailed level of classification (e.g., electricity, office supplies, asphalt, and furniture).

**Obligation** - Amount a government may be legally required to meet out of its resources. Includes not only actual liabilities but also encumbrances not yet paid.

**Operating Expenditure** - Payment for day-to-day operations (e.g., office supplies, maintenance of equipment, and travel); excludes capital costs; also known as operating and maintenance costs.

**Output Indicator** - A unit of work accomplished, without reference to the resources required to do the work (e.g., number of permits issued, number of refuse collections made, or number of burglary arrests made). Does not reflect the effectiveness or efficiency of the work performed.

**Pay-as-You-Go Basis of Funding** - A term used to describe a financial policy that finances capital outlays from current revenues rather than through borrowing.

**Performance Budget** - A budget that bases expenditures primarily on measurable performance of activities and work programs.

**Performance Indicator (Performance Measure)** - Specific quantitative and qualitative measure of work performed within an activity or program (e.g., total miles of streets cleaned). Also, a specific quantitative measure of results obtained through a program or activity (e.g., reduced incidence of vandalism due to new street lighting program).

**Personal Services** - Expenditures for salaries, wages, and fringe benefits of a government's employees.

**Prior-Year Encumbrances** - Obligations from previous fiscal years in the form of purchase orders, contracts, or salary commitments that are chargeable to an appropriation and for which a part of the appropriation is reserved. Cease to be encumbrances when the obligations are paid or otherwise terminated.

**Program** - A group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible.

**Program Budget** - A budget that allocates money to the functions or activities of a government rather than to specific items of cost or departments.

**Program Performance Budgeting** - A method of budgeting whereby the services provided to the residents are broken down in identifiable service programs or performance units. A unit can be a department, a division, or a work group. Each program has an identifiable service or output and objectives to provide the service effectively. The effectiveness and efficiency of

providing the service by the program is measured by performance indicators.

**Purpose** - A broad statement of the goals, in terms of meeting public service needs, that a department is organized to meet.

**Reserve** - An account used either to set aside budgeted revenues not required for expenditure in the current budget year or to earmark revenues for specific future purpose.

**Resolution** - A special or temporary order of a legislative body; an order of a legislative body requiring less legal formality than an ordinance or statute.

**Resources** - Total amounts available for appropriation, including estimated revenues, fund transfers, and beginning balances.

**Revenue** - Funds that a government receives as income. May include tax payments, interest earnings, service charges, grants, and intergovernmental payments. The term designates an increase to a fund's assets that does not increase a liability (e.g., proceeds from a loan); does not represent a repayment of an expenditure already made, a cancellation of certain liabilities, or an increase in contributed capital.

**Revenue Estimate** - A formal estimate of how much revenue will be earned from a specific revenue source for some future period, typically a future fiscal year.

**Service Level** - Services or products that comprise actual or expected output of a given program. Focus is on results, not measures of workload

**Service Objectives** - The specific achievements that a government hopes to make throughout the provision of a service; the intended result of an activity.

**Service Plan** - The methods by which a government plans to achieve its service objectives; the basis upon which the annual budget typically is built.

**Source of Revenue** - Taxes, fees, fines, user charges, or other income generated by or for the municipality.

**Special Revenue Fund** - A governmental accounting fund used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**Supplemental Appropriation** - An additional appropriation made by the governing body after the budget year or biennium has started.

**Supplemental Requests** - Programs and services departments would like to have added (in priority order) over their target budget—sometimes when revenue received is greater than anticipated.

**Target Budget** - Desirable expenditure levels provided to departments in developing the coming year's recommended budget; based on the prior year's adopted budget; excludes one-time expenditures, projected revenues, and reserve requirements.



**Tax Base** - The total property valuation on which each taxing authority levies its tax rates.

**Taxes** - Compulsory charges levied by a government for the purpose of financing services performed for the common benefit of the people. Does not include specific charges made against particular persons or property for current or permanent benefit, such as special assessments.

**Tax Rate Limit** - The maximum legal rate at which a locality may levy a tax. May apply to taxes raised for a particular purpose or for general purposes.

**Unit Cost** - The cost required to produce a specific product or unit of service (e.g., the cost to purify 1,000 gallons of water).

**User Charges** - The payment of a fee for direct receipt of a public service by the party who benefits from the service.

**Variable Cost** - A cost that increases/decreases with increases/decreases in the amount of service provided (e.g., a salary).

**Voucher** - A written document that is evidence of the propriety of a particular transaction; typically indicates the amounts to be affected by the transaction.

**Working Cash** - Excess of readily available assets over current liabilities; cash-on-hand equivalents to satisfy cash flow needs.

**Workload Indicator** - A unit of work to be done (e.g., number of permit applications received, the number of households receiving refuse collection service, or the number of burglaries to be investigated).

**Yield** - The rate earned on an investment based on the price paid for the investment, the interest earned during the period held, and the selling price or redemption value of the investment.